2013 Annual Awards Entry Form
(Complete one for each entry.)

Entry Name **Sustaining the Single Family Portfolio Post HHFRI**

Fill out the entry name ***exactly*** as you want it listed in the awards program.

HFA ______________________

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Entry form with description, check(s), and visual aids (optional) must be received by NCSHA by **Monday, July 1, 2013.**

Use this header on the upper right corner of each page.

HFA ______________________

Entry Name ______________________

Communications	**Homeownership**	**Legislative Advocacy**	**Management Innovation**
☐ Annual Report ☐ Promotional Materials and Newsletters ☐ Creative Media	☐ Empowering New Buyers ☐ Home Improvement and Rehabilitation ☐ Encouraging New Production	☐ Federal Advocacy ☐ State Advocacy	☒ Financial ☐ Human Resources ☐ Operations ☐ Technology
Rental Housing	**Special Needs Housing**	**Special Achievement**	**Are you providing visual aids?**
☐ Multifamily Management ☐ Preservation and Rehabilitation ☐ Encouraging New Production	☐ Combating Homelessness ☐ Housing for Persons with Special Needs	☐ Special Achievement	☒ YES ☐ NO

Sustaining the Single Family Portfolio Post HHFRI
Management Innovation: Financial

Overview
For two-and-a-half years, Rhode Island homeowners who were experiencing difficulty paying their mortgage had access to the Hardest Hit Fund Rhode Island (HHFRI). As one of the states hardest hit by the foreclosure crisis, Rhode Island was awarded $79 million in Hardest Hit Funds from the U.S. Treasury to prevent avoidable foreclosures by helping homeowners who were unable to make their mortgage payments.

Working together with its partners, Rhode Island Housing made HHFRI one of the most effective foreclosure prevention programs in the country. In fact, we were the first HFA to fully award all HHFRI funds. Due to the program's great success, we were able to assist 3,168 homeowners, including 903 homeowners from our own portfolio.

With all good things, they must come to an end and the application period for HHFRI funds ended on January 31, 2013. Although HHFRI funds have been fully allocated, Rhode Island Housing is committed to helping families and individuals who are struggling to make their mortgage payments. With the closing of this program, we recognized that we needed to develop a program to both aid our customers while also mitigating losses from defaults and foreclosures within our portfolio.

The Need
While some positive signs in our state's slow economic recovery exist, delinquency and REO levels remain very high. Without intervention, these will translate into high loan losses as well. High housing cost burdens and persistent unemployment still leave many homeowners vulnerable to foreclosure. According to the latest Mortgage Bankers Association National Delinquency Survey data, Rhode Island continues to lead New England for the number of foreclosure starts.

In the last four years, we have witnessed dramatic increases in the number of mortgage holders who are experiencing 90+ day delinquencies. While we have seen a slight decrease in delinquencies through aggressive use of HHFRI funds and other strategic efforts, the closure of HHFRI meant we would face more challenges but without this critical funding source.

Without funds from the HHFRI program, more borrowers will simply assume there is no help available to them, and will simply give up on both their payments and on their properties. Many borrowers will have no other option but to surrender their properties by short-sale, deed-in-lieu, or foreclosure.

Creative Response
In a post-HHFRI world, we have developed an innovative loan modification program to meet the needs of our customers and mitigate losses from defaults and foreclosures. The newly launched program mirrors the FHA Loss Mitigation program to assist homeowners facing financial hardship and whose mortgage is either in default or at risk of default.

The program's goals are to:
- Reduce number of deed-in-lieu transfers, foreclosures and short-sales, and thereby lowering expenses and losses related to these transactions.

- Lower rates of default which will result in reduced losses and reduced exposure to Mortgage Insurance Companies.
- Financial stabilization for borrowers that bring their loans current and build equity in their homes as a result of having a performing loan.
- Stabilize neighborhoods and the overall real estate market by reducing the number of foreclosures and vacant properties and their blighting influence.

Program Highlights
As part of the program Rhode Island Housing reviews each borrower's options through our 'waterfall' analysis to find the best alternative that will increase the likelihood that borrowers will make their payments and keep their properties. The $15 million pilot program tests each borrower's needs using four different options (see attached).

Challenges
One of the challenges we faced when developing the program was the necessary approvals and 'buy in' from our financial partners. As part of the pilot, we worked closely with our largest mortgage insurer (MGIC) to receive the appropriate approvals; we are working on obtaining approval from other mortgage insurers now.

Another challenge was ensuring the program did not expose us to other losses and or negatively impact our bond ratings. To help determine any associated risks to the program, we brought in bond counsel and a quantitative consultant to analyze the impact of the program on our bonds. We were able to effectively analyze any potential losses vs. any potential impact on our bond indentures.

Additional challenges included operational and administrative modifications to loan documents, delinquency reporting, servicing system updates and performance/outcome tracking.

Summary
Communities across the United States are experiencing steady and even increasing rates of foreclosure, as well as an increase in the number of homeowners at risk of foreclosure. Each foreclosure event represents a potentially devastating impact on the homeowners that lose their homes, on the neighborhoods that experience a growing accumulation of vacant and abandoned housing and on the nation's economic recovery which is largely dependent upon the stability of the housing market.

Additionally, every default or foreclosure negatively impacts our portfolio and our ability to achieve our mission. This HFA has developed a proactive program to halt and reverse the losses represented by foreclosure. To date, we have modified $4.5 million in first mortgages utilizing this loan modification program.

Why it is meritorious:

Innovative: While we used a successful FHA loan modification model to base our program on, what makes our loan modification program unique is the deferred arrearage which is potentially forgivable and the four-year principal deferral which provides a significantly reduced payment. This four-year period will provide the borrower with financial stabilization including equity building through principal payments and real estate appreciation.

Replicable: With approval and support of the mortgage insurance industry and the investor, this loan modification program can be replicated by any HFA servicer.

Respond to a management challenge or opportunity: We were faced with continued record unemployment, declining real estate values, increased delinquency and foreclosure activity and resulting losses. This program will enable us to minimize the financial impact of these losses on our agency and our mission related programs.

Achieve measurable improvements in agency operations: Historically we have been experiencing an average loss of $65,000 per foreclosed property. Assuming that each modified loan averts a potential foreclosure loss, and further assuming based on a $15 million pilot program, we are able to assist 89 borrowers (with an average loan balance of $167K), we will be avoiding potential losses of $5.8 million dollars under this pilot program.

Provide benefits that outweigh costs: Benefits of this pilot program go well beyond the estimated $5.8 million dollars of potential loan loss savings. As mentioned above, we are not only stabilizing our portfolio but are also providing financial stabilization to our borrowers and the communities we serve.

Demonstrate effective use of resources: This program did not require additional staffing resources. We were able to utilize existing staff who were formerly assisting borrowers to submit HHFRI applications and process loan workout and disposition plans.

Achieve strategic objectives: By reducing loan losses we are further stabilizing the financial position of our agency, which will enable us to continue to provide much needed housing programs to the residents of Rhode Island.

Sustaining the Single Family Portfolio
Post Hardest Hit Fund
Rhode Island

- Without funds from the HHFRI program, more borrowers will simply assume there is no help available to them, and will simply give up on both their payments and on their properties.

- Many borrowers will have no other option, but to surrender their properties by short-sale, deed-in-lieu, or foreclosure.

- Rhode Island Housing will review each borrower's options through our waterfall analysis to find the best alternative for each borrower that will increase the likelihood they will make their payments, and keep their properties.

- Reduction in number of deed-in-lieu transfers, foreclosures, and short-sales, will lower external costs and fees associated with these transactions.

- Lower rates of default will result in reduced losses and reduced exposure to Mortgage Insurance Companies.

- Borrowers that bring their loans current will have improved credit scores and build equity in their homes as a result of having a performing loan.

Highlights of Program

Option 1

- Borrower that has **rectified hardship** will have the option to cure arrearage by:
  - Capitalize arrearage at same rate and term, (slightly higher payment).
  - Capitalize arrearage and reduce interest rate, (slightly lower payment).
  - Capitalize arrearage and extend term of loan, (moderate reduction of monthly payment).
  - Capitalize arrearage, reduce interest rate, and extend term of loan, (significant reduction of monthly payment).

- Results for lender: lower rates of delinquencies and defaults.

- Results for borrower: keeps home, improves credit, cures arrearage, and/or lowers monthly payment.

- Results for MI Company: less likelihood of having to pay claim sooner; less likelihood of having to pay claim based upon higher principal balance, higher accumulated interest, and higher taxes, fees and other costs.

Option 2

- Unpaid principal balance and arrearage are bifurcated through a loan modification agreement.

- Unpaid principal balance becomes the modified amortizing first mortgage.

- Bifurcated arrearage becomes a non-amortizing junior debt.

- Borrower that has **rectified hardship** and makes forty-eight on-time payments ($0.00 x 30) of the modified first mortgage will have the junior debt forgiven at the end of the forty-eight month period.

- Borrower also has the option to modify rate and term of the modified amortizing first mortgage.

- Results for borrower: keeps home, improves credit, potential to eliminate arrearage, and to lower monthly payment.

- Results for MI Company: less likelihood of having to pay claim sooner; less likelihood of having to pay claim based upon higher principal balance, higher accumulated interest, and higher taxes, fees and other costs.

- Results for lender: lower rates of delinquencies and defaults. Also has the potential to recover junior bifurcated debt if value of property increases, and borrower elects to sell or refinance during four year period.

Option 3

- Borrower that has **rectified hardship**, but is still unable to make full monthly payments towards the modified amortizing first mortgage.

- Unpaid principal balance and arrearage are bifurcated into three (3) separate debts.

- Unpaid principal balance is reduced by up to twenty (20) percent and remainder becomes the modified amortizing first mortgage.

- Borrower also has the option to modify rate and term of the modified amortizing first mortgage.

- Twenty percent reduction becomes a bifurcated non-amortizing junior debt, that is deferred for forty-eight (48) months, then becomes a fully amortizing junior debt payable at one percent (1%) over the interest rate of the of the modified amortizing first mortgage.

- Bifurcated arrearage becomes a non-amortizing junior debt.

- Borrower that makes forty-eight on-time payments of the first modified amortizing first mortgage will have the third debt forgiven.

- Results for borrower: keeps home, improves credit, potential to eliminate arrearage, and to significantly lower monthly payment.

- Results for MI Company: less likelihood of having to pay claim sooner; less likelihood of having to pay claim based upon higher principal balance, higher accumulated interest, and higher taxes, fees and other costs.

- Results for lender: lower rates of delinquencies and defaults. Also has the potential to recover entire principal balance following forty-eight month deferment period.

Option 4:

- If lender, after a careful analysis of borrower's hardship and ability to make payments, is unable to offer any of the above options, borrower will be referred for a potential short-sale, deed in lieu, or foreclosure.

- Any loan that defaults, (one thirty day late payment), for a second time during the forty-eight month period, is no longer eligible for this program.

- All collection efforts would resume based upon the full principal balance prior to bifurcation.

- The MI claim would be calculated based upon the full principal balance prior to bifurcation. Lender would not be able to include intervening interest, and taxes. Payment of claim would be adjusted based upon above balance.