

Background

Foreclosure rates nationally and in Wisconsin continue to rise. In 2008 and 2009 Wisconsin experienced two consecutive years of record foreclosure filings. In 2010, unemployment statewide continued to rise with five counties being particularly hit hard. As a direct result, nearly half of Wisconsin's foreclosures since 2007 have been located in Brown, Kenosha, Milwaukee, Racine and Rock counties.

WHEDA had been active in promoting foreclosure prevention initiatives that address homeowners in crisis since 2007, but by mid-2008 it had become apparent that there was a crying need for a program explicitly designed to reduce the glut of foreclosed properties hitting the market and assure that owner-occupants would have a fighting chance to buy real estate owned (REO) properties that were becoming increasingly targeted by investors.

When the federal Neighborhood Stabilization Plan (NSP) was announced in late 2008, WHEDA saw the opportunity to use federal subsidy and fill the void for a viable acquisition-rehab program in the five counties hardest hit by foreclosure.

From there, WHEDA introduced the Wisconsin Neighborhood Advantage loan – a 30-year, fixed-rate mortgage (FRM) that could be coupled with an NSP-funded grant to generate owner-occupant demand for the acquisition and rehabilitation of foreclosed homes. NSP, a \$4 billion program designed to address foreclosed and vacant properties, was created as part of the federal Housing and Economic Recovery Act (HERA) signed into law on July 31, 2008.

As the administrator of NSP, the U.S. Department of Housing and Urban Development (HUD) identified the Wisconsin Department of Commerce (Commerce) as the direct grantee for the state. As a sub-grantee, WHEDA received \$1.7 million in NSP funds, which it used to provide down payment and closing cost assistance grants needed to a) reduce the first mortgage loan-to-value (LTV) ratio to no greater than 80%, b) increase affordability, and c) instill REO seller confidence in offers to purchase received from owner-occupant buyers pre-approved by WHEDA.

Product Description

The \$1.7 million WHEDA received in NSP pass-through funds enabled WHEDA to leverage over \$6 million in Wisconsin Neighborhood Advantage acquisition-rehabilitation first mortgages in the five Wisconsin counties with the greatest number of foreclosed properties as determined by the University of Wisconsin Extension housing research and HUD foreclosure data. One success story of note was Rock County, located in southern Wisconsin. Rock County was hit hard by the December 2008 closing of the General Motors Assembly Plant in the City of Janesville, in which 1,200 employees were laid off. With unemployment and foreclosures shooting up across the county, the Neighborhood Advantage funded loans to owner-occupants who bought and repaired 18 REO properties in Janesville and the City of Beloit areas.

Why was Wisconsin Neighborhood Advantage able to meet the market need? During the program development phase, lenders indicated that bank portfolio lending programs for acquisition-rehab had largely been terminated. Additionally, there were no Wisconsin lenders offering Fannie Mae's HomeStyle Renovation; and only a handful of lenders offered FHA's 203(k) program. In developing

Neighborhood Advantage, lenders wanted something easier to use than 203(k). Additionally, while lenders said they were willing to manage escrows and take back the risk of repurchase due to non-completion of work, they did not want to bear any interest rate risk.

This is where WHEDA stepped in. With the federal government investing heavily in Agency mortgage-backed securities (MBS), WHEDA saw a market in which pass-through rates would be stable. As a result, WHEDA was willing to float interest rates for 45-60 days before locking into a 90-day cash sale to Fannie Mae. That provided the time necessary for repair work to be completed, appraised values to be re-certified, and WHEDA to deliver a fully documented loan to Fannie Mae. The rate environment was so stable, in fact, that in more than half of the loans WHEDA modified the interest rate lower by 0.25% -0.50% prior to sale, giving borrowers the best rate possible. In all cases, work was completed on time and the value was re-certified.

Here are the program's specifications:

- Income: 120% county median income (CMI), with 30% of NSP funds reserved for borrowers earning 50% CMI or less
- Owner-occupied only
- 30-year FRM
- Eight hours of face-to-face counseling from a WHEDA-approved non-profit agency
- Other non-NSP grant funds can be layered
- Buyers are eligible to claim the federal housing tax credit for first-time home buyers
- Up to \$24,999 in repairs with an escrow not to exceed 90 days

WHEDA also worked primarily with six non-profit organizations that provided rehab oversight services and assured that repair work was completed on time and to the prevailing specifications established by either municipal code or Housing Quality Standards (HQS).

Implementation

The Wisconsin Neighborhood Advantage loan was launched July 1, 2009, with all funds allocated and the last loan closing on July 13, 2010. As this loan program was designed to be a unique niche product, a series of lender and Realtor training sessions were held within the eligible five-county region prior to the launch. The training sessions featured background on federal NSP funding, loan product description, underwriting guidelines and information on local organizations offering NSP assistance. Training sessions also included a resource panel with a Realtor, appraiser, inspector and a lender sharing perspectives on how to engage consumers in the foreclosure market and the process to rehabilitate homes with this funding.

From the training sessions, WHEDA was able to assess which lender partners in its network were willing to participate in the loan product. Interested lenders signed new lender origination agreements specific to the Wisconsin Neighborhood Advantage. With a limited amount of loan funding and a targeted five-county market area, it was important for WHEDA to isolate lenders dedicated to promoting the product. Participating lenders were featured in an online database and received loan referrals.

To support the launch of the product, WHEDA created a new logo and branding to market Wisconsin Neighborhood Advantage as this product did not utilize WHEDA tax-exempt bond

financing. The new Wisconsin Neighborhood Advantage logo was then applied to wheda.com, presentation templates, and marketing materials to promote the loan product. Electronic samples of promotional pieces have been included with this award entry.

Results

Wisconsin Neighborhood Advantage provided lending to purchase and rehabilitate 59 homes and return these properties to owner-occupancy status. The new loan program also exceeded expectations on the number of loans made to borrowers with less than 50% CMI as 44% of NSP dollars went to these very low income households. Furthermore, Wisconsin Neighborhood Advantage enabled WHEDA to fund more major acquisition-rehab loans in 12 months than the Authority had funded from 2000 through 2008.

When the program was terminated in July, lenders immediately asked WHEDA to consider bringing back the program even without the NSP subsidy. WHEDA is currently working with a subset of Neighborhood Advantage participating lenders and non-profits in three counties on a pilot program with homes of bringing to market a non-NSP acquisition-rehabilitation loan product in the spring. Neighborhood Advantage not only met its marks as a short-term program, but it may have opened doors to WHEDA being a major player in the acq-rehab market going forward.

Conclusion

As an NSP recipient, WHEDA was able to create a new mortgage financing loan to generate market demand for the acquisition and rehabilitation of foreclosed properties. Coupling this loan with other assistance grants offered by local housing partners created new, affordable home ownership opportunities and helped restore ailing neighborhoods in foreclosure crisis.

As Wisconsin Neighborhood Advantage was a niche product, flexibility was crucial in adapting processes and procedures to accommodate unique loan situations and changing market conditions. The time and energy put into the loan program have paid other dividends to WHEDA:

- Provided WHEDA with a market presence when the organization was forced to suspend its tax-exempt mortgage revenue bond lending in October 2008 due to significant disturbances in the capital markets.
- WHEDA received accolades from the Wisconsin Department of Commerce, the administrator of Wisconsin's NSP funds, for its management and quick allocation of NSP funding.
- WHEDA was able to package and sell the loans to Fannie Mae for a gain-on-sale sufficient to cover the higher cost of origination and strengthen its relationship with Fannie Mae for its future lending endeavors.
- Wisconsin Neighborhood Advantage received positive media coverage in a time of constant negative housing news. This positive coverage enabled WHEDA to remain in the public eye with partners and consumers. Examples of feature news articles have been included with this award entry.

WHEDA is optimistic that the Wisconsin Neighborhood Advantage will have a positive, long-term impact on rebuilding neighborhoods and has already become a financing model for other states.