

COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

Re: Ten Years of Tarp: Examining the Hardest Hit Fund, Hearing May 22, 2018

Written Statement of Proposed Testimony of Cathy James,

Alabama Housing Finance Authority

Chairman Palmer and Chairman Meadows and members of the Subcommittee on Government Operations and the members of the Subcommittee on Intergovernmental Affairs, thank you for the invitation to discuss with you Alabama's Hardest Hit Fund program. My name is Cathy James. I am the Business Development Manager for Alabama Housing Finance Authority. I also serve as the manager of the program in Alabama for the Hardest Hit Fund, which we call Hardest Hit Alabama. I have had this position throughout the program's existence. Today, I will provide an overview of Alabama's Hardest Hit Fund Programs, and SIGTARP's December 2017 report concerning all state programs and certain expenses which it challenged to be unnecessary. For Alabama, that involved \$705 spent on meals for in-house working lunches and promotional items.

Alabama Housing Finance Authority (AHFA) was established in 1980 as a public corporation dedicated to the housing needs of low-moderate income homebuyers in the State of Alabama. It operates several programs including the Multifamily programs for Housing Credits, HOME, Housing Trust Funds, and private activity bonds; the single-family programs for down payment assistance for home loans, and the Mortgage Credit Certificate Program for home loan assistance, and the Hardest Hit Alabama Program.

HHF Allocation Notification

AHFA's introduction to the HHF began with its first notification for Hardest Hit funding in July 2010, with the Round 3 funding allocation of \$62 million. Within days AHFA was informed that an additional \$100 million had been allocated to the State of Alabama. AHFA quickly undertook the development of Term Sheets and program guidelines for an Unemployment program under Hardest Hit. We began by reviewing Term Sheet templates adopted by states which previously received funding in Rounds 1 and 2. AHFA's goal has always been to develop a program which would help meet the needs, specifically, of the citizens of Alabama. During the development process, close attention was paid to the programmatic use of funds and funds allocated for the program administrative needs. In total Alabama has been allocated \$162.5 million in HHF, 16.75% of which is allocated to administrative expenses.

AHFA closed on the HHF Participation Agreement with Treasury on September 23, 2010. By December 15, 2010, the pilot program was in operation. The statewide release of the program began in February 2011.

Application Process

Applicants interested in applying for Hardest Hit Alabama assistance, apply via an online application, a method which was determined to afford the greatest access to potential applicants. Preliminary to submitting an application, the homeowner creates an online profile. Once the profile is completed, the homeowner responds to a list of pre-qualification questions to determine if they meet the basic program qualifications. Homeowners who meet the basic program guidelines advance to the online application. Homeowners who do not meet the basic program guidelines are encouraged to contact a counselor if they feel they should qualify for assistance.

The application process proceeds through six phases: Intake, Counseling, Underwriting, Closing, Disbursement, and Monitoring. Each phase of the process receives the attention of a different HHA employee assigned to that phase. The employees work directly with the applicant through each phase. AHFA verifies the homeowner's eligibility for HHF assistance based on the following criteria: clear title/ownership, past due payment amount, unemployment/underemployment status, unpaid principal balance, and total household income. Homeowners are required to provide upfront verification of several forms of documentation, including tax returns, income documentation, mortgage servicer information, and more. Once all required documentation has been received, the application is reviewed by HHA to determine eligibility. Applicants who meet program guidelines, are contacted by a closing agent to execute the note and mortgage. Disbursements to loan servicers begin once the document signing company provides verification that the note and mortgage have been executed.

Homeowners who fail to complete the online application or who fail to provide the required documentation within 30-days of starting the process, have their application "withdrawn", not denied. To reactivate the application, applicants are instructed to contact their counselor and request reactivation.

Hardest Hit Alabama Programs

Throughout the seven years of HHF Assistance, the Department of Treasury has approved twelve Term Sheet changes for the AHFA. Each change request included a request for additional program components and/or changes to existing programs. Alabama's current portfolio of HHF programs include the following programs:

1. The **Mortgage Payment Assistance program** is available to eligible homeowners who have experienced an involuntary job loss and are receiving unemployment compensation benefits or have experienced a substantial reduction in household income. HHA will provide a limited amount of monthly mortgage payments including principal, interest and escrow expenses. Eligible homeowners may avail themselves of this program only once.

For unemployed homeowners

Homeowners who have received unemployment benefits on or after January 2013 may be eligible for assistance. Funds will be disbursed to mortgage servicers for up to 12 months, not to exceed \$30,000.

For underemployed homeowners

To be eligible as an underemployed homeowner, your household must demonstrate a financial hardship resulting in a 15% or greater reduction in total household income within the past 24 months. Funds will be disbursed to mortgage servicers for up to 12 months, not to exceed \$30,000.

To help delinquent borrowers, HHA will pay the mortgage servicer to bring the mortgage current, not to exceed \$12,500. Homeowners cannot have a past due balance that exceeds \$12,500. The maximum assistance per household is \$30,000.

For underemployed homeowners more than \$12,500 past due

To be eligible as an underemployed homeowner, the household must

demonstrate a financial hardship resulting in a 15% or greater reduction in total household income within the past 24 months. A one-time disbursement of up to \$30,000 will be made to fully reinstate the mortgage loan. The reinstatement must result in a mortgage payment (including principal, interest, taxes, and insurance) of no more than 38% of the homeowner's income.

2. **The Loan Modification Assistance Program** will provide funds to assist eligible financially distressed borrowers in achieving modification of their home loans or payoff of their mortgage liens.

Loan Modification/Recast

HHA will provide the assistance as a one-time distribution of funds to fill a financial gap that limits a homeowner's eligibility to qualify for a loan modification. Funds may be used to reduce the outstanding principal balance, pay delinquent escrow or past due payments, or recast the loan. To use the program, the mortgage servicer must approve the homeowner for the loan modification. The loan modification must result in a mortgage payment (including principal, interest, taxes, and insurance) of no more than 31% of the homeowner's income. The program is designed to work with both HAMP and non-HAMP modifications. The maximum assistance per household is \$30,000.

Lien Extinguishment

Homeowners on a fixed income may receive up to \$30,000 to pay off mortgage lien(s) on their home (excludes HELOC and reverse mortgages).

3. **The Short Sale Assistance Program** assists eligible financially distressed homeowners with the sale of their primary residence. The program is for homeowners who can no longer sustain their monthly mortgage obligation due to a hardship such as unemployment, underemployment, divorce, death or disability. The mortgage servicer must approve the homeowner for a short sale. The homeowner must provide information documenting income, short sale approval, executed sales contract, the value of the property, and payoff statement(s). Participating servicers must agree to accept a minimum loss of \$1,000 on the first mortgage loan.

4. **The Blight Elimination Pilot Program** assists municipalities with up to \$30,000 per house to demolish dilapidated properties meeting program guidelines.

By the numbers: Selected Program Outcomes

- More than 6,500 homeowners in Alabama have received assistance of more than \$63.8 million in program dollars.
- 93% of program dollars have been disbursed on behalf of homeowners who qualified for the Mortgage Payment Assistance (“MPA”) program.
- 7% of funds have been disbursed on behalf of qualified homeowners for the Loan Modification Program.
- The average amount of assistance per homeowner has been \$9,828.
- 85% of homeowners who received MPA have an annual income of \$50,000 or less.
- 45% of assisted homeowners were more than 90 days delinquent on their principal mortgage at the time of application.
- HHF have been disbursed in all 67 counties in the State of Alabama.
- 12-month growth in cumulative program funds disbursed increased by 33.6%

- 12-month growth in cumulative homeowners assisted increased by 19.3%
- Jefferson County residents account for approximately 20% of all homeowners assisted. Madison and Mobile counties rank second and third, respectively, with 13% and 12%. Three properties have been demolished using funds allocated to the Blight Elimination Program. The Greater Birmingham Habitat for Humanity offers worked closely with AHFA on the demolition of the three properties.
- Recovered \$1.1 million in HHF
- No funds have been disbursed in respect to the Short Sale Program.
- As of Q4 2017, Alabama has received notification of post assistance foreclosure proceedings for approximately 2% of approved homeowners. Homeownership retention is tracked after the assistance ends.

Program Oversight

As with all its programs, AHFA undertakes with great seriousness the administration of the HHF program. To insure regulatory and program compliance, Alabama's Hardest Hit Program is reviewed monthly by internal auditors and semi-annually by an independent audit firm. Since program inception, Alabama has also completed five Compliance Reviews with the Department of Treasury. The reviews noted only minor findings which were easily addressed.

The December 2017 SIGTARP Report asserted that \$705 of expenses charged by AHFA to HHF were unreasonable and, therefore, unallowable. All the noted expenses were related to HHF activities: in-house lunches during working conferences with Treasury personnel or, in one instance, a lender, and promotional items to two homeowners who volunteered for radio and television ads. Alabama contested the allegations and defended the charges. Even so, per the March 2018 Treasury Compliance Review

Report, AHFA agreed to reimburse Treasury \$397, the balance of expenses being found proper. Alabama has submitted the required funds back to the HHF account and responded to Treasury's Compliance Review Report.

Conclusion

Since the notification of Alabama's allocation of HHF, we have worked to insure the program was programmatically sound and funds were not spent unnecessary.

AHFA's commitment to the proper use of HHF is unchanged. AHFA will continue provide HHF assistance to homeowners across the State of Alabama in compliance with the agreed upon terms outline in the Term Sheets and in compliance with OMB Circular A-87.

END