

**Statement**

**by**

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**before the**

**Appropriations Committee  
of the  
Senate of Pennsylvania**

**February 22, 2010**

Good morning and thank you for the invitation to meet with you today. I am Brian Hudson, the Pennsylvania Housing Finance Agency's Executive Director.

The primary program PHFA has received state appropriations for is the Homeowners' Emergency Mortgage Assistance Program. However, for the benefit of the Members, I would like to present for the record this written testimony which reviews what PHFA is, the programs it operates and how it is funded. I have also made available packets of information that detail the Agency's activities in your districts.

PHFA is the Commonwealth's leading finance organization for affordable homes and rental apartments. It was created by the legislature in 1972. Its core mission was to finance affordable apartments and homes at minimal expense to Commonwealth taxpayers through the issuance of securities. That is still the case today. PHFA does not receive a general appropriation from the Commonwealth for its programs or operations, with the exception of the Homeowners' Emergency Mortgage Assistance Program.

Statewide, the Agency has provided nine billion dollars of funding for over 130,000 homes and 85,000 apartments. Additionally, the Homeowners' Emergency Mortgage Assistance Program, which PHFA administers for the Commonwealth, has saved over 41,500 homes from foreclosure.

The Agency is governed by a 14 member Board of Directors. Four serve in an ex-officio capacity. They are the Secretary of Banking, who by law is our Chairperson, the Secretaries of the Departments of Community and Economic Development and Public Welfare, as well as the State Treasurer. The majority and minority leaders of the House and Senate have one appointment each. The remaining six members are appointed for six year terms by the Governor with the advice and consent of the Senate.

Act 91 of 1983 authorized PHFA to develop the Homeowners' Emergency Mortgage Assistance Program to help certain homeowners who were in danger of losing their homes to foreclosure. This change in PHFA's statute was brought about by an early 80's recession which led to a large number of foreclosures, particularly in the southwestern part of the state.

The HEMAP program is funded through State appropriations and loan repayments. Since inception, state appropriations have totaled \$233,450,000. Also, a total of \$15.1 million in TANF (Temporary Aid to Needy Families Funding) was targeted to eligible applicants to ease the appropriation burden on

the state in 2003-2004 (\$6.7M), 2004-2005 (\$1.4M), 2005-2006 (\$3.6M) and 2009-2010 (\$3.4M).

HEMAP prevents mortgage foreclosures resulting from defaults caused by circumstances beyond a homeowner's control. It provides loans to bring delinquent mortgage payments current and may also provide continuing help with mortgage payments. Total assistance cannot exceed 24 months, except when unemployment in the Commonwealth exceeds a three-month running average of 6.5 percent. When that occurs, total assistance allowed is 36 months.

Generally, the program works as follows: If someone with a mortgage in the Commonwealth becomes 60 days or more delinquent, before foreclosing, lenders are required to send an "Act 91" Notice informing the homeowner of the HEMAP program and directions on how to apply.

After receiving the Notice, a homeowner has 33 days to have a face-to-face meeting with a consumer credit counseling agency, which then has 30 days from that date to get the application to PHFA. Over ninety counseling agencies throughout the state provide this service.

Counseling agencies are under contract with PHFA to prepare applications for HEMAP loans. Their job is to help homeowners present the most complete and accurate applications regarding their financial circumstances. They also counsel homeowners on financial matters and spending habits and often serve as negotiators between homeowners, mortgage lenders and other creditors in forbearance negotiations.

Upon receipt of the application, the Agency has 60 days to render a decision of eligibility.

The following eligibility criteria must be met to obtain HEMAP loan assistance:

\*\*\* The homeowner must be at least 60 days delinquent on at least one of their mortgages. If a homeowner has more than one mortgage, not all mortgages need to be delinquent. However, no more than two mortgages can receive HEMAP assistance.

\*\*\* The home must be located in Pennsylvania and the homeowner must reside in the home.

\*\*\* The home must be a one-or-two family residence.

\*\*\* By statute, mortgage loans insured by the Federal Housing Administration under Title II of the National Housing Act are not eligible.

\*\*\* HEMAP loans cannot exceed \$60,000 or 36 months of payments.

\*\*\* HEMAP loans can be in no worse than a third lien position.

\*\*\* Homeowners must be suffering financial hardship due to circumstances beyond their control which renders them unable to correct the delinquency within a reasonable period of time---loss of employment from layoffs or plant closings, serious medical problems and spousal abandonment are typical circumstances.

\*\*\* Homeowners must be able to demonstrate that they have a reasonable prospect of resuming normal mortgage payments within 36 months and paying off the mortgage by maturity. Job skills, employment history, efforts at retraining, etc., are all relevant factors that the Agency will consider in determining whether there is a reasonable prospect of an applicant being able to resume making full mortgage payments within 36 months.

If approved, a homeowner can receive up to 36 months of loan disbursements. Mortgage payments are made by HEMAP directly to the lender on the homeowner's behalf. PHFA assistance is in the form of a mortgage loan. The HEMAP interest rate is currently 5.25 percent. However, interest does not accrue until the homeowner is financially able to start repayment based on a formula established by statute.

If denied a HEMAP loan, the homeowner has 15 days to appeal the decision. This appeal process is not part of the law but rather was instituted by the Agency to provide applicants with a second opportunity to resolve misunderstandings.

The Program has been very successful. It has saved over 43,000 homes from foreclosure and provided over \$453 million in loans. Also, over 20,300 loans have been paid in full and HEMAP has received over \$251 million in principal and interest repayments from homeowners who have benefited from the program. These repayments have been recycled into new HEMAP loans, benefiting additional Pennsylvanians.

Predatory lending issues and the sub-prime mortgage crisis have pressured the program over the past several years. As a result of high unemployment in 2009, HEMAP "triggers" kicked in taking available assistance up to 36 months. This will result in additional costs to the Program. Additionally, declining economic activity in conjunction with tightening credit has reduced repayments by 50 percent over the past four years. Increases in application volume will continue to pressure the program, thus an appropriation of \$16 million was requested for the 2010-2011 fiscal year.

## *Initiatives to assist Homeowners with Sub-prime Mortgages*

### *REAL Program (REfinance to an Affordable Loan)*

The REAL program was designed to provide affordable 30-year fixed interest rates to homeowners who initially obtained an adjustable rate mortgage (or some other 'exotic' mortgage product) and are no longer able to afford the adjusted mortgage payments. Because the REAL program combines 100 percent financing with flexible credit underwriting, it offers relief to homeowners who otherwise may not qualify for other mortgage refinance programs. A network of 82 approved lenders originates, closes and sells the loans to the Agency. Today, interest rates are 7.625 percent with no points and 7.375 percent with one point.

The following is a summary of the program guidelines:

- The combined gross annual income of all borrowers may not exceed \$120,000. This may be waived for consumers not eligible for a refinance loan available in the general market.
- Applicants may be up to 59 days behind on their existing mortgage and can include arrearages in the REAL loan amount.
- The applicant's monthly total debt obligations including the REAL loan payment may not be more than 50 percent of total gross monthly income (or 45 percent for borrowers with a credit score below 620).
- The REAL loan may be used to finance items such as subordinate mortgages, closing costs, prepayment penalties, delinquent property taxes, and arrearages that have occurred within the past 12 months after a payment reset.
- Borrowers must have a credit score of at least 620 **OR** meet both of the following conditions:
  1. The mortgage payment adjusted in the last 12 months to a higher interest rate or a fully amortized payment and the applicant has made no more than two, 30-day late payments since the adjustment. The mortgage payment history 12 months prior to the adjustment shows no history of late payments.
  2. The credit history of other debt (car loan, credit cards, etc.) shows no more than three, 30-day late payments 12 months prior to the mortgage adjustment.

### *HERO Program (Homeowners Equity Recovery Opportunity)*

HERO is a loan program designed to improve the financial situation of Pennsylvanians who are not able to afford their current mortgage payments. This program is for borrowers not eligible for PHFA's REAL program or another mortgage refinance product available in the general market due to credit issues or owing more than their home's current appraised value.

HERO provides for up to 100 percent financing for homeowners with serious credit issues or those who owe more than their home is worth. PHFA determines an affordable loan amount and then negotiates with the current lender in an attempt to secure a discounted loan payoff. The loan is then sold directly to PHFA or refinanced. In either case, PHFA services the loan until it is paid in full.

Applicants are also advised to contact the Pennsylvania Legal Aid Network office in their area to explore any and all possible legal remedies to their mortgage situation. If appropriate, PHFA works with the Pennsylvania Department of Banking as well as the Pennsylvania Attorney General's Office to negotiate fair purchase terms with the current lender. PHFA-approved counseling agencies provide debt and delinquency counseling to each HERO borrower to increase their level of financial literacy and help them learn how to more effectively manage their debt, budget their income and save money.

The interest rate for the HERO program is 7.95 percent with no points. This is a fixed rate, and there is no prepayment penalty. PHFA services all HERO loans. Property taxes and insurance are escrowed with the borrower's monthly mortgage payment.

The following is a summary of the program guidelines:

- The combined gross annual income of all borrowers may not exceed \$120,000. This can be waived for consumers not eligible for a refinance loan available in the general market.
- Applicants must demonstrate an effort to meet financial obligations to the best of their ability.
- Applicants must have stable and sufficient income to maintain timely mortgage payments on the HERO loan.
- Applicants must own the mortgaged property and reside in it as a permanent residence.
- The home's current value must support the proposed HERO loan.
- The current lender must accept PHFA's terms and conditions for purchasing the loan.

#### **OTHER AGENCY ACTIVITIES**

**Rental Housing** PHFA works with both for-profit and non-profit developers to make affordable apartments available for the elderly, low income families and persons with disabilities. It is necessary to bring together local, state and federal resources in order to accomplish this task. PHFA's rental housing effort does just that.

The driving force behind rental housing production in the United States today is the Low Income Housing Tax Credit. Tax credits allow housing sponsors to raise private capital to lower the cost of development. The Agency administers this effort in the Commonwealth. In 2009, PHFA allocated \$28 million of tax credits which will generate approximately \$200 million of private investment capital to help finance affordable rental apartments.

Another funding resource comes from the Agency itself. In 1987, with the reduction of federal subsidies, PHFA started to earmark its earnings to help make up for this loss. Since then, the Agency has set aside more than \$223 million of its own funds to make Pennsylvania's rental housing programs possible. Known as the PennHOMES program, this highly effective effort has stimulated the rehabilitation and construction of badly needed apartments across the state. Total set-asides since 1986 for all programs are approximately \$395 million.

To date, the Agency has financed the construction or rehabilitation of 83,000 units in the Commonwealth. These multifamily dwellings are privately owned, and pay taxes to the communities in which they are located. They are well-maintained assets in their neighborhoods.

**Homeownership** PHFA helps low and moderate income Pennsylvanians become homeowners by making mortgage money available through a network of participating lending institutions across the state.

The Agency's loans help Commonwealth families buy their first homes by offering attractive, below-market-rate, 30-year, fixed-rate mortgage loans, as well as providing a statewide network of free homeownership counseling services.

For many purchasers, especially lower income families, the greatest impediment to buying a home is coming up with the money for downpayment and closing costs. The Agency's homeownership programs overcome that obstacle by providing soft second mortgage funding for qualified buyers. PHFA also funds accessibility improvements to make the homes of persons with disabilities more adequately meet their needs.

PHFA mortgage funds are available for existing homes, as well as for newly constructed homes, to stimulate the economy and create jobs.

An Employer Assisted Housing Initiative was started by the Agency to help workers better afford the cost of shelter near their place of employment. Many core community employees such as public safety personnel, health care providers, entry level employees, and unskilled laborers can benefit from the program, and stretch their home-buying dollars if their employers participate in the program. By

helping employers address a key business concern, the cost of recruiting and retaining good employees, the program can have a positive effect on turnover rates, absenteeism and tardiness while lowering commuting times and accompanying stress.

Employers who participate in the PHFA program can offer their workers the lowest available Agency rates, reduced fees, and free homebuyer education. In some cases, employees may also be eligible for closing cost assistance. The benefit can also be designed to consider community revitalization in and around the place of business. To date, 60 employers have partnered with PHFA and the Agency has developed sample documents and guidelines for companies that wish to participate.

Thus far, in all our homebuyer programs, almost nine billion in mortgage financing has been made available to help over 130,000 Pennsylvanian households purchase homes. Funds for this program come primarily from the sale of Agency bonds to private investors across the nation, and from Agency earnings, not from appropriations. The collateral for the bonds is the properties on which the mortgages are held.

These PHFA securities, known as mortgage revenue bonds, are among the highest rated of their kind in the nation and currently carry a AA+ rating from Standard and Poors and a Aa2 rating from Moody's Investor Service.

The Homeownership Choice Program, an effort that we started in 2000, attracts private development to blighted urban areas. Its primary focus is homeownership but it can also encourage rental housing with its flexible initiatives which include:

Homeownership Construction to help municipalities and core communities transform blighted areas into attractive neighborhoods through new construction.

Neighborhood Revitalization to provide ownership opportunities through a combination of both new construction and rehabilitation of homes.

Mixed Use to help revitalize commercial corridors by providing flexible funding for rental or for-sale housing on upper floors of commercial storefronts.

In its first nine years, \$87 million in Agency funds have been used to leverage over \$545 million in additional housing, infrastructure and economic development commitments in 72 communities. Commitments have funded 1,710 new and 391 rehabilitated for-sale homes, 270 apartments, 48 for-sale condominiums and 88 new commercial spaces.

The committee has been provided a number of publications that detail the many activities of the Agency. Information about PHFA programs may also be viewed on the internet at [www.phfa.org](http://www.phfa.org). *Again*, thank you for the invitation. I look forward to answering any questions you may have.