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CHFA Loss Mitigation Task Force  
Research Subcommittee on CHFA Bond Rating, Debt Service, and Funding Issues

How EMAP and CT FAMLIES are Funded

*EMAP:*

EMAP was reauthorized in 2008 with \$14 million from the Banking Fund (later reduced to \$10 million, with \$5 million going to support first EMAP loans and \$5 million being transferred by CHFA to Judicial to support foreclosure mediation). Subsequently, the State authorized \$50 million in CHFA bonding. The State pays the debt service on these CHFA bonds. EMAP repayments are recycled into the program, such that EMAP repayments may be used to increase the amount of EMAP funding. At this early stage, EMAP repayment levels are too low to substantially affect the number of loans available.

*CT FAMLIES:*

CT FAMLIES began in late 2007 at the recommendation of the state's Sub-prime Lending Task Force (which was co-chaired by CHFA's then-President/Executive Director and Commissioner Howard Pitkin). The General Assembly formally authorized the program in 2008 and CHFA issued \$40 million in "pre-Ullman" bonds to fund the program. CHFA also provided up to \$4 million in related second mortgages for CT FAMLIES borrowers. Initially, CHFA relied on an FHA-insured refinancing program to back the loans. That FHA program expired at 2008's end, and CHFA has since self-insured the loans.

CT FAMLIES first mortgages are used to provide refinancings at up to 97% of the property's appraised value. CHFA has provided second mortgages of up to \$25,000 (or, if lower, the point at which the combined loans equal 108% of the property's value) to about one-quarter of CT FAMLIES borrowers. The second mortgages are used to cover appraisal gaps, closing costs, and payment of other liens on the property, and are funded from monies normally used to assist first-time homebuyers with down payments. Repayments on CT FAMLIES loans help repay the debt service obligations.

Current Funding Levels and Expected Expiration

*EMAP:*

Thirty of the authorized \$50 million in CHFA bonds were issued shortly after the program's reauthorization in 2008. CHFA recently worked with OPM and the State Treasurer to bond the additional \$20 million. CHFA officials expect EMAP loan issuance to resume at roughly its pre-FEHLF pace (i.e., pre-April 2011) and the funds to be depleted in June or July 2012.

### CT FAMLIES:

Counting reservations for pending but not yet approved loan applications, only \$6 million is available for new applications. CHFA expects that CT FAMLIES will deplete its authorized funding by summer 2012.

### Impact on CHFA Bond Rating

CT FAMLIES is funded by certain of CHFA bonds (“pre-Ullman” bonds) and is supported by CHFA’s credit and the careful underwriting of its loans. It is a relatively small size of CHFA’s debt exposure and therefore has a limited impact on CHFA’s rating.

EMAP bonds are a separate CHFA indenture not supported by CHFA credit. Debt service for EMAP bonds is provided directly by the State via an assistance agreement, so the EMAP program does not have any impact on the Authority’s credit rating.

### Underwriting

CHFA relies on a mix of statutory requirements and statutorily provided discretion when underwriting EMAP loans and is able to provide homeowners with assistance without jeopardizing CHFA’s finances. CHFA underwriters are not compelled by statute to issue loans to borrowers they would otherwise deem not creditworthy, given that they must affirmatively consider the likelihood that EMAP loans will be repaid. Statutory requirements also provide for discretion so that certain rules – such as the prohibition on a borrower having more than three thirty-day-late mortgage payments in the twelve months preceding the reported hardship – can be waived in certain circumstances. CHFA underwriters work directly with applicants to determine if a waiver is appropriate.

### Potential Effects of Eligibility Changes

CHFA officials foresee no substantial harm or risk to CHFA’s bond rating or portfolio were EMAP’s eligibility expanded to FHA borrowers. Given the differences between FHA workouts and workouts on conventional loans, we believe that it could be easier for a borrower to obtain both an EMAP loan and an FHA workout – such as a partial claim – than it is now to coordinate both a workout on a conventional loan and an EMAP loan.

CHFA will explore options to continue to offer refinancing to distressed homeowners. Given the flexibility and depletion of pre-Ullman funds, the simplest solution would be for CHFA to seek federal approval to allow use of some of its bond authorization to refinance existing borrowers. Options for underwriting consideration include combining the first and second lien programs into a single loan, expanding maximum LTV to 115% or some other threshold not associated with increased strategic default or risk to CHFA, expanding the maximum second lien to \$40,000 or \$50,000, and identifying a new source of funds used for the second mortgage.

### Foreclosure Prevention Counseling

CHFA markets its mortgage assistance programs through printed and web materials and outreach at housing fairs and foreclosure prevention clinics. Homeowners may also learn about EMAP through statutorily required pre-foreclosure letters. CHFA relies on a statewide network of specialized HUD-approved housing counselors (a/k/a CHFA-approved housing counselors) to educate borrowers about the programs on both a group and individual basis. CHFA receives a

grant through the federal National Foreclosure Mitigation Counseling program and then subcontracts with CHFA-approved housing counselors to provide foreclosure intervention counseling. CHFA also provides additional funds for CHFA approved counseling agencies for providing foreclosure prevention counseling. CHFA-approved housing counselors are also paid to attend and advise attendees at certain housing fairs and mortgage assistance events (such as the November 15, 2011 event at the Convention Center that was sponsored by Governor Malloy, Attorney General Jepsen, and Department of Banking Commissioner Howard Pitkin). When FEHLP was running, counselors were paid to counsel and process applications for that program.

CHFA-approved housing counselors are funded through a variety of sources, including housing counseling grants from HUD. These grants, however, were eliminated for the current fiscal year by Congress, and only a partial restoration has been proposed for the subsequent fiscal year. Such a cut, without offsetting funding increases, would likely reduce the ability of CHFA-approved housing counselors to provide foreclosure prevention services of all types to the communities they serve.

CHFA is considering compensating its counselors for assisting homeowners in preparing and submitting EMAP applications. Such changes could be coordinated with efforts to ensure housing counselors are helping homeowners pursue modifications from their servicers when appropriate and feasible. Such changes in compensation would likely lead to an increase in successful EMAP applications and more expeditious closings.

CHFA is also considering ways to change the manner by which CT FAMLIES applications are handled so as to increase the number of applications made – when appropriate, e.g., when conventional refinancing is not available – and approved in a timely fashion. Such changes would likely lead to an increase in CT FAMLIES loans.

### Funding Needs

Given the impending depletion of funds available for both programs, the Task Force should consider whether to recommend an increase in bonding authority for both programs. The review should include an evaluation of the programs' performance so far (including the number of homeowners reached, the default rate thus far, and the risk borne by the state and CHFA in supporting these programs), their role in foreclosure prevention, and their cost relative to alternative forms of foreclosure prevention. Any bonding increase should account for a likely expansion of eligibility and availability for both programs. The increase, if determined to be worthwhile and prudent, could be designed to last through June 30, 2014 (the current sunset date for Judicial's Foreclosure Mediation Program, though likely not the end of the foreclosure crisis).

CHFA would continue to administer these programs if the State were to continue to recommend funding for this program. In addition:

- CHFA reports that \$4.6 million in debt service for the life of the bonds would create \$60 million in EMAP funding or approximately 750 loans.
- CHFA would also pursue federal approval to allow CT to refinance existing borrowers into CT FAMLIES loans with its tax exempt bonds.

The Task Force should also consider:

- How CHFA-approved housing counselors are funded, and whether sources of funding exist that would help ensure the counselors remain available to help Connecticut homeowners as the foreclosure crisis continues;
- The cost of publicizing the programs' availability on a wider basis (e.g., public service announcements on TV and radio), in the manner FEHLP and the November 15, 2011 mortgage assistance event were publicized, and the resulting increase in applications and, presumably, funded loans; and
- Whether CHFA should provide the Banks and Housing Committees, whether in the form of written materials or through a public hearing, with a report on the programs' performance, funding levels, and any ideas for updates and improvements.