Housing Finance Agency Innovation Fund for the Hardest Hit Housing Markets
("HFA Hardest-Hit Fund")

Guidelines for HFA Proposal Submission

STATEMENT OF PURPOSE

On February 19, 2010, President Obama announced $1.5 billion in funding for innovative measures to help families in the states that have been hit the hardest by the aftermath of the burst of the housing bubble. States where house prices have fallen more than 20% from their peak are eligible for this funding.[1] Such price declines, coupled with the effects of high unemployment, mean that many working and middle-class families in these areas are facing serious challenges.

State Housing Finance Agencies ("HFAs") in California, Florida, Arizona, Michigan and Nevada may submit proposals ("HFA Proposals") for using these funds to develop and implement innovative housing initiatives tailored to their local conditions to help prevent foreclosures and stabilize housing markets, including individual programs ("Programs") targeting unemployed borrowers, underwater borrowers and second lien relief.

To receive funding from the HFA Hardest-Hit Fund, a Program must satisfy the requirements for funding under the Emergency Economic Stabilization Act of 2008, as amended ("EESA"). These requirements include that the recipient of funds must be an eligible entity, which is described below under the heading "Eligible Entity," and that the funds must be used to pay for Programs designed to prevent avoidable foreclosures and other permitted uses under EESA.

ALLOWABLE USES

The HFA Hardest-Hit Fund is designed to allow the maximum possible flexibility to eligible HFAs in designing Programs that are tailored to the needs of the specific state. All Programs must promote the purposes of EESA. Section 2 of EESA provides that the purposes of EESA are to restore liquidity and stability to the financial system and to use Troubled Asset Relief Program (TARP) funds in a manner that, among other things:

- Protects home values.
- Preserves homeownership and promotes jobs and economic growth.

[1] As of December 2009 based on the FHFA Purchase Only seasonally adjusted index measured since each state's peak home price level.

- Provides public accountability for the exercise of such authority.

The objective of the HFA Hardest-Hit Fund is to allow HFAs to develop creative, effective approaches that consider local conditions. To provide guidance to HFAs in designing Programs, Treasury has outlined below many of the possible types of transactions that would meet the requirements of EESA.

a. **Mortgage Modifications –** Programs may provide for mortgage modification of loans held by HFAs or other financial institutions or provide incentives for servicers / investors to modify loans.

b. **Mortgage Modifications with Principal Forbearance –** Programs may provide for paying down all or a portion of an overleveraged loan and taking back a note from the borrower for that amount in order to facilitate additional modifications.

c. **Short Sales / Deeds-In-Lieu of Foreclosure –** Programs may provide for assistance with short sales and deeds-in-lieu of foreclosure in order to prevent avoidable foreclosures.

d. **Principal Reduction Programs for Borrowers with Severe Negative Equity –** Programs may provide incentives for financial institutions to write-down a portion of unpaid principal balance for homeowners with severe negative equity.

e. **Unemployment Programs –** Programs may provide for assistance to unemployed borrowers to help them avoid preventable foreclosures.

f. **Second Lien Reductions –** Programs may provide incentives to reduce or modify second liens.

This is not meant to be an exhaustive list of acceptable transactions, and other innovative ideas and transaction types (including innovations related to the Making Home Affordable Program) will be evaluated on a case-by-case basis for compliance with EESA. Treasury may publicly announce additional types of transactions that would meet the requirements of EESA.

For Programs designed to help individual homeowners, the target population should be limited to residences with unpaid principal balances equal to or less than the current GSE conforming limit of up to $729,750[2]. HFAs may target low and moderate income borrowers at their discretion consistent with that HFA's state enabling legislation.

Each Program must be in full compliance with, all federal, state, and local laws, including, but not limited to, the Equal Credit Opportunity Act and the Fair Housing Act, which prohibit discrimination on a prohibited basis in connection with mortgage transactions. Mortgage modification programs are subject to the fair lending laws, and HFAs should ensure that the

[2] Maximum loan limit for one unit dwelling. 2 units = $934,200; 3 units = $1,129,250; 4 units = $1,404,400

Programs do not treat a borrower less favorably than other borrowers on grounds such as race, religion, national origin, sex, marital or familial status, age, handicap, or receipt of public assistance income in connection with any Program.

ELIGIBLE ENTITY

The HFA Hardest-Hit Fund has been designated specifically for implementation by state HFAs. To receive funds, each recipient of funding from the HFA Hardest-Hit Fund (each, an "Eligible Entity") must be a "financial institution," as that term is defined in EESA. Specifically, Section 3(5) of EESA defines "financial institution" as:

> "FINANCIAL INSTITUTION.—The term ''financial institution" means any institution, including but not limited to a bank, savings association, credit union, security broker or dealer, or insurance company, established and regulated under the laws of the United States or any State, territory, or possession of the United States, the District of Columbia, Commonwealth of Puerto Rico, Commonwealth of Northern Mariana Islands, Guam, American Samoa, or the United States Virgin Islands, and having significant operations in the United States, but excluding any central bank of, or institution owned by, a foreign government."

Accordingly, an Eligible Entity must be a regulated entity that is incorporated separately from the state government itself, such as a corporation (private or public) or similar entity formed or incorporated under state law, which has the corporate power to receive funds from Treasury in respect of the HFA Hardest-Hit Fund and to work with the related state HFA in implementing that state's HFA Proposal(s). Agencies of state governments are not considered Eligible Entities for purposes of the HFA Hardest-Hit Fund. The Eligible Entity may be an existing entity or it may be newly-formed for the purpose of implementing the HFA Hardest-Hit Fund. Prior to receiving funds through the HFA Hardest-Hit Fund, each Eligible Entity will need to be approved as a "financial institution" under EESA by Treasury in its sole discretion. Additionally, Eligible Entities will be required to enter into an agreement ("Participation Agreement") with Treasury (or Treasury's agent), which must qualify as a "financial instrument" under EESA by Treasury. The Participation Agreement will include, among other provisions, reporting and compliance requirements as more fully described below under "Reporting" and "Compliance and Monitoring."

HFA PROPOSAL REQUIREMENTS

All HFAs must submit an HFA Proposal organized into the following sections:

Section One: The first section should clearly outline the overall strategy for utilizing the funding and:

a. Briefly describe each of the proposed Programs (if more than one) to be funded by this initiative, explaining how they fit together and will be implemented, including an overview of the expected costs (broken out by incentive and administrative costs) and benefits.

b. Describe how the strategy will help prevent foreclosure and stabilize housing markets.

c. If more than one Program is proposed, describe how available funding is expected to be allocated among Programs.

Section Two: The HFAs should provide a detailed business plan for each individual Program proposal for the HFA Hardest-Hit Fund. Each business plan should include the following sections. Throughout the life of the HFA Hardest-Hit Fund program, HFAs will be able to adopt new Programs and / or re-allocate funding across Programs based on Program performance subject to review and approval by Treasury.

a. **Overview of Program** – The HFA should provide detailed information about the intended purpose and scope of the Program, including the specific problems that the Program will address as well as the specific goals for the Program and how progress toward these goals will be measured.

b. **Population served and allocation methodology** – The HFA should provide detailed information about the estimated number of households that the Program will target, including a geographic breakdown or other targeting, if applicable. In addition, the HFA should provide a timeline in which it expects to deploy the funds. The HFA should identify any anticipated Program implementation obstacles and provide a related mitigation plan. The HFA should describe how funds will be leveraged by additional resources, if applicable (e.g., interaction with existing programs at the state or federal level or other proposed Programs).

c. **Demonstration of capacity to implement –** The HFA should provide background information on its organizational capacity to implement the Program, including the experiences of key staff members, necessary compliance infrastructure, audit and internal controls, fraud risk mitigation, reporting protocols, systems infrastructure and necessary funding and implementation mechanisms. If the HFA has implemented or sponsored a similar or identical program in the past, the HFA should provide metrics regarding efficacy, where possible.

d. **Staffing and business partners –** The HFA should provide a detailed staffing plan for the Program, including the use of outside partnership organizations, if applicable. The HFA should list any key partners that will be part of the Program and detail their roles, expertise and relationship to the HFA and expected level of compensation. The HFA should detail any agreements or other outside business relationships related to the Program.

e. **Administrative expenses –** The HFA should include an estimate of administrative expenses (including expenses associated with staffing and business partners from paragraph d above) required to implement the Program, including a detailed expenditure timeline.

f. **Overview of risk management / fraud prevention –** The HFA should provide a plan for minimizing Program and fraud risk, including details related to monitoring and auditing. The HFA should incorporate such risk management and fraud prevention strategies into the overall compliance plan (see Compliance and Monitoring below).

g. **Tracking / reporting** – The HFA should describe its proposed methodology for measuring Program progress, including key performance measurements, frequency of reporting and tracking systems to measure progress against goals (see Reporting below).

REPORTING

HFAs will be required to develop and maintain operational and performance metrics, have a detailed financial reporting system and track homeowners helped through its Programs. HFAs will report data to Treasury on a periodic basis, including metrics used to measure Program effectiveness against stated objectives. Treasury may request that the HFA modify the proposed performance measures or seek additional metrics as necessary. In its HFA Proposal, the HFA should provide details about how it plans to collect, archive and report performance and financial data, including systems integration requirements, if any, and how it will handle interim reporting, if necessary, until systems are in place and/or projects are implemented. Treasury may make any or all data reported by an HFA available to the public.

COMPLIANCE AND MONITORING

HFA's and Eligible Entities will be required to comply with all requirements under EESA, including but not limited to, allowing full compliance and oversight by Treasury, the Comptroller General of the United States, Government Accountability Office, Congressional Oversight Panel, and the Special Inspector General of the Troubled Asset Relief Program as to the application of any EESA funds. All books, communications and records regarding the use of EESA funds must be available for review by any of these entities upon request.

In addition, HFA's will be required to design Program(s), establish monitoring mechanisms, and implement a system of internal controls which minimize the risk of fraud, mitigate conflicts of interest, and maximize operational efficiency and effectiveness. A system of internal controls should encompass the entities' processes, their business partnerships and relationships and any constituency being aided through these Programs. The entities will be required to test, certify, and provide an independent verification of the effectiveness of these controls at least annually including an assessment prior to program launch to ensure Eligible Entities have taken appropriate steps to meet program objectives, as well as to provide audited financial statements to Treasury.

ADMINISTRATIVE EXPENSES

Eligible Entities will be eligible to receive funds for administrative expenses necessary to achieve the Program goals and as approved by Treasury. Further details regarding administrative expense payments will be provided prior to final approval of an HFA Proposal.

INSTRUCTIONS FOR SUBMITTING HFA PROPOSALS

Deadline

HFA Proposals must be received no later than by 5:00 p.m. EST on April 16, 2010 (Treasury will confirm receipt).

Format

Each HFA Proposal must include a one-page cover letter that provides: (i) the name, title, mailing address, e-mail address, and office and mobile phone numbers of the individual designated to receive communications from Treasury; and (ii) a certification statement that the HFA: (a) understands and agrees to the terms set forth in these guidelines; and (b) understands and agrees to the confidentiality provisions below.

HFA Proposals may not exceed 50, one-sided pages, prepared in 12-point, Times Roman font with 1 inch margins. HFA Proposals must not include other documents or attachments including but not limited to generic marketing or sales information unless directly related to the ability of the HFA to execute the proposed plan(s). HFA Proposals must not rely on cross-references to other documents or websites.

Delivery

Each HFA Proposal must be submitted via email in PDF format to HFAInnovation@do.treas.gov.

Treasury Review

HFA Proposals will be reviewed by an interdisciplinary committee within Treasury. The primary purpose of the review is to confirm that HFA Proposals adhere to the requirements of EESA and these guidelines. Treasury may contact the HFA with questions as part of its review and may require the HFA to submit additional information. Treasury will notify the HFA entity's designated individual once the plan is approved.

Communication with Treasury

HFAs are responsible for and encouraged to seek clarification on any aspect of these guidelines that the HFA does not fully understand. All questions should be directed to: HFAInnovation@do.treas.gov.

Treasury, in its sole discretion, may respond orally or in writing to any question(s) submitted by an HFA or about an HFA's Proposal. Substantive questions should be submitted as soon as possible. No information gained from any communication may be considered in any way binding or limiting on Treasury.

Treasury considers any information provided to an HFA in evaluating its HFA Proposal to be strictly confidential and must not disclose any communication from Treasury to any party outside the HFA's organization, nor may correspondence from Treasury be duplicated, used or disclosed in whole or in part for any purpose other than to prepare an HFA Proposal, without the express prior written consent of Treasury.

Other Terms and Conditions

Treasury assumes no obligation to reimburse or otherwise compensate the HFA for expenses or losses incurred in connection with these guidelines, other than as specifically detailed in the HFA Participation Agreements.

Treasury reserves the right to: (i) modify the requirements in these guidelines or withdraw these guidelines at any time; (ii) negotiate with each HFA and confirm any HFA Proposal considered acceptable in part or in total; (iii) request, orally or in writing, clarification of or additional information on an HFA Proposal; (iv) waive minor informalities or irregularities, or any requirement of these guidelines; and (v) reject an HFA Proposal that does not conform to the requirements of these guidelines.