<u>Housing Finance Agency Innovation Fund for the Hardest Hit Housing Markets ("HHF")</u>

Guidelines for HFA Proposal Submission for Unemployment Programs

STATEMENT OF PURPOSE

On August 11, 2010, the Administration announced an expansion of the HHF to provide additional assistance targeted at unemployed borrowers in states with the highest unemployment rates. This expansion of the HHF will include up to $2 billion in funding for HFAs to offer a standard unemployment bridge program that will pay a portion of a borrower's mortgage payment while they are unemployed or underemployed.

Responsible families across the country have found themselves unable to pay their mortgages due to unemployment or underemployment. The economic downtown has led to a record number of workers suffering from long term unemployment, and millions more are working part-time because they cannot find full time or otherwise adequate work. This assistance is designed to help thousands of families keep making their payments and stay in their homes until they can they find work.

The 18 states and jurisdictions eligible for this additional funding had high sustained unemployment rates over the last 12 months (through June, 2010) that were at or above the national average. This includes nine of the original HHF states (California, Florida, Michigan, Nevada, North Carolina, Ohio, Oregon, Rhode Island and South Carolina), who can use the funding for an existing unemployment bridge program or implement the model provided, as well as Alabama, the District of Columbia, Georgia, Illinois, Indiana, Kentucky, Mississippi, New Jersey and Tennessee. State Housing Finance Agencies ("HFAs") that are currently in the HHF will not be required to submit a new HFA Proposal, but may amend their existing documents to incorporate the additional funding and submit a term sheet that reflects the new or modified program. Existing HHF states should also submit an action plan that details how this funding will be incorporated with previous funding, revised estimates of the people served, an updated administrative expenses template and revised timeline, if applicable. HFAs that are not currently in the HHF must submit proposals (an "HFA Proposal") that will describe how they will implement this unemployment bridge program ("Program"). If an HFA is not able to complete all of the requirements in time prior to the deadline established by Treasury, the state will not be able to receive the funding.[1]

[1] The deadline, which will be communicated to the HFAs shortly, will be in late September because the purchase authority granted to Treasury pursuant to Section 101(a) of the Emergency Economic Stabilization Act of 2008, as amended ("EESA") terminates on October 3, 2010.

To receive funding from the HHF, a Program must satisfy the requirements for funding under EESA. These requirements include that the recipient of funds must be a financial institution eligible for receipt of funds under EESA, and that the funds must be used to pay for Programs designed to provide credit enhancements to facilitate mortgage modifications in order to prevent avoidable foreclosures and other permitted uses under EESA. For this funding, HFAs must create and implement a single unemployment bridge program that pays some portion of an unemployed borrower's mortgage while they search for work. All assistance must be structured as a non-recourse loan, secured by a junior lien in the property, which will be forgivable over a period of time not to exceed 10 years. This loan will only be repayable if the borrower sells or refinances the property before the period expires and there are sufficient equity proceeds from the sale to pay the portion of the loan that has not yet been forgiven. All funds returned to the eligible entity may be reused for this program or, with approval of Treasury, another of the state's HHF programs until December 31, 2017. Thereafter they will be returned to Treasury.

ALLOWABLE USES

This additional funding for the HHF is designed to provide targeted relief to unemployed or underemployed borrowers, while allowing HFAs to retain the flexibility to tailor the assistance to the needs of each participating state. These Programs will pay some portion of a borrower's mortgage payment for a period of time to be determined by the HFA to allow a borrower to secure employment or obtain job training. The HFA should obtain documentation of unemployment or employment-related loss of income from all participating borrowers. The HFA can determine whether and how much a payment is required by the borrower, as well as how this payment will be collected. It is strongly recommended that the HFA (or its agent) collect the borrower's contribution first and then submit a whole payment to the servicer to ease implementation issues. The HFAs may determine the eligibility criteria to use for this Program to better ensure that this assistance has the maximum local impact and leads to sustained homeownership. For instance, HFAs could require borrowers to have been current on the loan before the hardship occurred or could target certain occupational groups that are more likely to be reemployed. The HFA can also set loan characteristics they would like to target or believe are more likely to have sustained homeownership (e.g. loan-to-value ratio below 125%, unpaid principal balance less than $350,000). EESA does not require an investor match for this program, but states can seek a contribution from investors if it is appropriate for their Program and they can obtain servicer participation with such a contribution.

The target population should be limited to residences with unpaid principal balances equal to or less than the current GSE conforming limit of $729,750[2]. HFAs may target low and moderate income borrowers at their discretion consistent with that HFA's state enabling legislation. All borrowers must submit a hardship affidavit to receive assistance.

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. These Programs are subject to the fair lending laws and HFAs should ensure that the Programs do not treat a

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

borrower less favorably than other borrowers on grounds such as race, religion, national origin, sex, marital or familial status, age, ability, or receipt of public assistance income in connection with any Program.

ELIGIBLE ENTITY

The HHF has been designated specifically for implementation by state HFAs. To receive funds, each recipient of funding from the HHF (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 HHF and to work with the related state HFA in implementing that state's HFA Proposal. Agencies of state governments are not considered Eligible Entities for purposes of the HHF unless they separately satisfy the criteria discussed above. The Eligible Entity may be an existing entity or it may be newly-formed for the purpose of implementing the HHF. Prior to receiving funds through the HHF, 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 as well as a Financial Instrument, which must qualify as a "financial instrument" under EESA. The Participation Agreement will include, among other provisions, reporting and compliance requirements as more fully described below under "Reporting" and "Compliance and Monitoring." **All new states in the HHF should submit the articles of incorporation and bylaws for their Eligible Entity with this proposal. If the Eligible Entity is to be newly formed, please submit these items in draft form.**

HFA PROPOSAL REQUIREMENTS

The HFAs should provide a detailed business plan for this Program as well as a term sheet in the form of and that addresses the matters contained in Exhibit A attached to these guidelines. Each business plan should include the following sections. Throughout the life of the HHF, Eligible Entities will be able to modify this Program based on Program performance so long as it still complies with these guidelines, the Participation Agreement and subject to review and approval by Treasury in its sole discretion. The HFA Proposal should be organized into the following sections:

a. **Overview of Program** – The HFA should provide detailed information about the proposed Program and its goals, relevant background on unemployment in the state and how this Program will specifically address the unique needs of the state. It should include the elements of the program that will be tailored: the length of assistance, the amount or cap on assistance and any other relevant details. In addition, the HFA should provide a timeline in which it expects the Eligible Entity to deploy the funds. It should describe any process used to obtain feedback from state stakeholders. The HFA should identify any anticipated Program implementation obstacles and provide a related mitigation plan. The HFA should describe how funds from Treasury will be leveraged by additional resources, if applicable (e.g., interaction with existing programs at the state or federal level).

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. The HFA Proposal should detail eligibility criteria, including any populations that are excluded (e.g. borrower whose current mortgage payment is below 31% or have a loan-to-value of greater than 125%).

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 explain how the Eligible Entity will be managed (and / or staffed) by the HFA. 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. If the Program will entail the use of housing counselors for intake and/or other functions necessary and incidental to the Program, this should be described in detail as well.

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

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).

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 Program. HFAs will report data to Treasury on a periodic basis, including metrics used to measure Program effectiveness against stated objectives. Treasury will provide a list of metrics that have to be reported to Treasury on a regular basis. Treasury may request that the HFA modify the proposed performance measures or seek additional metrics as necessary. Treasury may make any or all data reported by an HFA available to the public. States are encouraged to use outside researchers to evaluate the long-term effectiveness of the program.

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, HFAs will be required to design a Program, 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 this Program. 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. Please fill out the template provided in Exhibit B.

INSTRUCTIONS FOR SUBMITTING HFA PROPOSALS

Deadline

HFA Proposals and action plans must be received no later than by 5:00 p.m. EST on September 1, 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 30, 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. Also, please submit a word version of the term sheet for your Program.

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 designated individual once the Proposal is approved.

Communication with Treasury

HFAs are responsible for and encouraged to seek clarification on any aspect of these guidelines that they do 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 or the Eligible Entity for expenses or losses incurred in connection with these guidelines, other than as specifically detailed in the Participation Agreement.

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.