North Carolina Housing Finance Agency

Hardest Hit Fund Proposal

July 23, 2010

INTRODUCTION

The North Carolina Housing Finance Agency (the Agency) appreciates the opportunity to participate in the second round of Treasury's **HFA Hardest Hit Fund (HHF).** The Agency is uniquely qualified to develop and administer programs to utilize the Hardest Hit Fund dollars, as it is a leader in designing and implementing programs to help families stay in their homes and to prevent avoidable foreclosures.

The Agency currently operates the **Home Protection Program**, a state program designed to keep unemployed homeowners in their homes by helping them to pay their mortgage and mortgage-related expenses while they look for, or train for, a new job. Since 2004, more than 600 homeowners have received $7.3 million in loans, and at least 5,000 homeowners have received foreclosure mitigation assistance.

In addition, the Agency administers the **National Foreclosure Mitigation Counseling** program which provides foreclosure counseling and budgeting assistance to homeowners at risk of losing their homes. Since 2008, more than 14,000 North Carolina homeowners have received services under this program.

For both foreclosure prevention programs, the North Carolina Housing Finance Agency has developed a strong network of partners to assist homeowners in need. Collectively, our current partners employ more than 130 foreclosure counselors/specialists with an average of six-plus years of experience.

In partnership with housing counseling agencies and others, the Agency has used its experience managing foreclosure prevention programs to design a set of programs using the Hardest Hit Fund. These initiatives will help struggling North Carolina homeowners prevent foreclosure, when possible, and will help stabilize neighborhoods impacted by large numbers of foreclosures.

The Agency has used the following guiding principles in developing its proposed programs:

- **Foreclosure Prevention –** The primary intent is to preserve homeownership and prevent a foreclosure.
- **Need** – The Agency wants to help homeowners who are ***not*** eligible for foreclosure assistance through federal programs such as the Home Affordable Mortgage Program (HAMP), the Home Affordable Refinance Program (HARP), the 2nd Lien Modification Program (2MP), Home Affordable Unemployment Program (UP) or other foreclosure assistance programs offered by FHA, VA and USDA.
- **Simplicity** – The program should be easy to explain to homeowners, easy for homeowners to apply for, and easy to administer and monitor.
- **Timeliness** – The program should begin assisting homeowners quickly (e.g., within 45-90 days of program approval by Treasury).
- **Scale/Impact** – The program should have a measurable impact on the foreclosure crisis in North Carolina.
- **Concentration on "Hardest Hit" –** Workers suffering job loss will be the primary beneficiaries of our program.

Although HHF assistance will be available statewide, homeowners living in distressed (“hardest hit”) counties will receive additional assistance. “Hardest hit” counties are designated by the Agency as counties with a 2009 unemployment rate greater than or equal to 11.3%, the state’s average county unemployment rate in 2009. Homeowners in these counties will be eligible for larger loan amounts and longer duration of assistance than homeowners in other counties. In addition, one program will be available only in “hardest hit” counties.

To develop its proposed programs, the Agency has sought structured input and feedback from a variety of partners, mortgage industry representatives and others. It created an external advisory group and a hosted series of meetings that included representatives of the following organizations:

- Bank of America
- Branch Bank & Trust
- Center for Responsible Lending
- Consumer Credit Counseling Services of Forsyth County
- First South Bank
- Genworth Financial, Inc.
- Employment Security Commission of North Carolina
- North Carolina Community College System
- North Carolina Department of Commerce
- North Carolina Justice Center
- North Carolina Rural Center
- North Carolina Bankers Association
- North Carolina Office of the Commissioner of Banks
- North Carolina State Employees Credit Union
- Southern Community Bank & Trust
- Wells Fargo Home Mortgage

In addition, the Agency distributed two written surveys to gather information and feedback from housing counseling partners and servicers/lenders. We supplemented these efforts with conference and individual calls with mortgage industry representatives and other state Housing Finance Agencies participating in HHF. Finally, the Agency’s internal leadership team played a key role in developing the proposed programs. As a result, the proposed set of programs draws on the considerable knowledge and experience of the Agency’s staff and of organizations across the state.

I. OVERALL STRATEGY

Based on feedback from various partners, mortgage industry representatives and others, the Agency will focus on the following needs:

- Unemployed homeowners who, through no fault of their own, are unable to make their mortgage payments and are in danger of losing their homes to foreclosure.

- Employed homeowners who are delinquent because of a prior job loss or other program-eligible hardship but who can resume future payments without additional assistance.
- Employed or underemployed homeowners struggling with unaffordable mortgages as the result of an uncontrollable decrease in income and/or an uncontrollable increase in housing expense.

The Agency proposes to use HHF to create three main programs to address these needs:

Mortgage Payment Program (MPP) will provide a 0% interest, non-recourse, deferred-payment, subordinate loan that will be forgiven after 10 years. The loans will assist an estimated **5,750** homeowners who are unemployed or are dealing with a temporary program-eligible hardship. Loan funds will pay monthly mortgage and mortgage-related expenses (i.e., property taxes, homeowner insurance and homeowner dues) while the homeowner seeks or trains for a new job. Loan funds will also help cover past-due mortgage payments (arrearages). Homeowners in "hardest hit" counties will be eligible to receive up to $36,000 (not to exceed 36 months of assistance). Homeowners other counties will be eligible for $24,000 (not to exceed 24 months of assistance). The Agency will allocate the majority of the HHF to this program, **$115 million (72.3%),** because it specifically helps unemployed homeowners, it received the most support from our external advisory group, and it capitalizes on the success of our state-funded Home Protection Program.

Second Mortgage Refinance Program (SMRP) will provide a 0% interest, non-recourse, deferred-payment, subordinate loan that will be forgiven after 10 years. SMP will assist an estimated **1,000** borrowers who have an unaffordable second mortgage due to a job layoff, reduction of hours, or other program-eligible hardship. This program will be offered only in "hardest hit" counties. The Agency will allocate **$15 million (9.4%)** of HHF to this proposed program. The allocation is based on feedback from servicers and housing counselors regarding the best way to help homeowners who are not eligible for loan modification through other federal programs.

Permanent Loan Modification Program (PLMP) will provide a 0% interest, non-recourse, deferred-payment, subordinate loan that will be forgiven after 10 years. PLMP will assist an estimated **440** borrowers. **PLMP** will provide a streamlined method for modifying loans of homeowners whose mortgages have become unsustainable as a result of a program-eligible hardship. The program will provide for a principal reduction with the added option of a rate decrease and/or term extension by the lender to achieve a monthly payment not exceeding 31% of the homeowner's gross monthly income. This program will be offered statewide. The Agency will allocate **$8.8 million (5.6%)** of HHF to this program.

The remaining **$20.2 million (12.7%)** of HHF will be used to cover **administrative costs and partner expenses.** For additional details on administrative expenses, please see Exhibit C on page 32.

The design of the three programs is based on North Carolina Housing Finance Agency's understanding of the depth and breadth of the foreclosure crisis in our state. The following indicators illustrate the extent of the crisis:

- An estimated **135,544** homes in North Carolina will be lost through foreclosure between 2009 and 2012, according to the Center for Responsible Lending.

- Foreclosure filings for 2009 reached a record **63,341**, **with 67 of 100 counties recording an increase**. This represents a 17% increase over the number of filings in 2008. Moreover, the pace of foreclosure filings is increasing. For the first quarter of 2010, the 17,552 foreclosure filings represent a **69%** increase over the first quarter of 2009. (NC Administrative Office of the Courts)

High unemployment, declining real estate values, and the re-setting of adjustable rate mortgages all contribute to the foreclosure crisis in our state.

- The loss of jobs has put many North Carolinians at the brink of foreclosure. The state's unemployment rate continues to be one of the highest in the nation. In April 2010, North Carolina's unemployment rate was **10.8%,** compared to the national rate of 9.9%. The unemployment rate in North Carolina has more than doubled since January 2008 (5.0%). According to data from Freddie Mac, **58%** of all delinquencies are triggered by unemployment or a curtailment of income.
- Declining real estate values limit the ability of many homeowners to refinance their mortgage. According to Realtytrac.com, the median home value in North Carolina has fallen **10%** over the last 12 months. In addition, the North Carolina Office of the Commissioner of Banks estimates **11%** of North Carolina mortgages are "underwater" (i.e., homes are worth less than the balance of the mortgage).
- As rates re-set on many adjustable rate mortgages, mortgage payments will become unaffordable for more individuals, putting them at risk of a foreclosure. The Center for Responsible Lending projected that **one in five** subprime loans would end in foreclosure due to steep payment increases and expensive pre-payment penalties. Since October 2008, the NC Commissioner of Banks reports that more than **192,365** pre-foreclosure notices on subprime loans had been filed in its database by mortgage servicers.

The three initiatives the Agency proposes will have a significant impact on these problems, will improve the outlook for North Carolinians who have suffered unemployment, and will strengthen communities experiencing high rates of foreclosure.

II. PROGRAM BUSINESS PLANS

The Agency proposes three main programs to assist homeowners across the state. As previously described, the majority of Treasury funds will help unemployed borrowers stay in their homes. The Mortgage Payment Program provides assistance for unemployed borrowers while they look for a job or retrain for a new career or employed borrowers who have a temporary program-eligible hardship. The Second Mortgage Refinance Program will assist homeowners who have an unaffordable second mortgage. The Permanent Loan Modification Program will provide a means for borrowers to lower their mortgage payments to a more affordable amount by combining a principal reduction with a 0% interest, non-recourse, deferred-payment, subordinate loan.

The following section describes the proposed programs in more detail, outlines the specific goals of each, and how progress will be measured. This section also describes the population that each program will serve, provides a timeline for fund deployment and implementation, identifies possible obstacles the program may encounter, and explains how funds will be leveraged by other resources.

SECTION II – ITEMS A & B: PROGRAM OVERVIEW, POPULATION SERVED & ALLOCATION METHODOLOGY

MORTGAGE PAYMENT PROGRAM

The Agency's proposed Mortgage Payment Program (MPP) will assist an estimated **5,750** unemployed homeowners and others, who through no fault of their own, are unable to make their mortgage payments and are in danger of losing their home to a foreclosure. The Agency will provide a 0% interest, non-recourse, deferred-payment, subordinate loan to qualified homeowners to achieve the following goals:

- Assist homeowners while they look for a new job
- Assist homeowners while they complete a job training or education program that will enhance their job skills
- Assist homeowners who are re-employed but need help to bring their mortgage current

North Carolina has one of the highest unemployment rates in the country. As of April 2010, the unemployment rate was **10.8%,** which translates into more than **490,000** people out of work. The number would be much greater if it included individuals who have given up looking for work and so are not captured in the official unemployment rate.

Given Freddie Mac data indicating that **58%** of delinquencies are triggered by unemployment or curtailment of income, the Agency expects the number of foreclosures in North Carolina to remain high until the unemployment rate declines significantly. Most economists do not expect such a decline anytime soon. The Center for Responsible Lending estimates that **135,544** homes will be lost to foreclosure in North Carolina between 2009 and 2012, and a significant number of these will be caused by to unemployment or other loss of income.

Moreover, the state's high unemployment rate is not only tied to the current recession, but is also part of a long-term shift away from a manufacturing economy. For many years, the state relied on manufacturing jobs in textiles, furniture and tobacco. As these industries downsized or shifted jobs overseas, well-paying manufacturing jobs were lost and will likely never return. Many manufacturing workers lack the skills and education to transition easily into other jobs and will require support and re-training to make this shift.

In addition, most unemployed homeowners either do not qualify for existing loss mitigation programs, or the assistance does not last long enough for them to find a new job. For instance, the new Home Affordable Unemployment Program, which became available July 1, 2010, will provide a maximum of six months of assistance to eligible homeowners. These homeowners cannot be more than three months behind in their mortgage payments at time of application. A substantial number of North Carolina homeowners, however, are more than three months behind in their mortgage payments, and/or they will need more than three to six months to find another job. The Agency's proposed MPP will provide more extensive assistance to unemployed homeowners and others suffering a temporary financial hardship. Loan proceeds will be used to pay their mortgage and mortgage-related expenses while the homeowners look for a job or train for a new one.

MPP is an expansion of the Agency's successful, state-funded Home Protection Program (HPP). In 2004, the North Carolina General Assembly created HPP as a pilot program to help homeowners laid off from textile and apparel manufacturing plants. The General Assembly appointed the North Carolina Housing Finance Agency to create and administer HPP. The Agency modeled HPP after the Homeowners' Emergency Mortgage Assistance Program that the Pennsylvania Housing Finance Agency has successfully administered for thirty years.

Initially, HPP was only available in eight counties that had experienced large plant closures. Over time, the legislature expanded HPP into other counties with high unemployment rates, and in 2008, they expanded HPP statewide to serve all 100 counties. Through May 21, 2010, the Agency achieved the following accomplishments through HPP:

- Provided more than **$7.3 million** in HPP loans to **611** families
- Provided a temporary stay of foreclosure for **841** families
- Supported foreclosure prevention and budgeting services for more than **5,000** homeowners

Because demand for HPP assistance increased significantly during 2009, the Agency believes expanding this program with HHF will be a successful and effective strategy for helping unemployed homeowners and others prevent a foreclosure.

To help eligible homeowners apply for assistance, the Agency will build upon the existing statewide network of housing counseling partners who have participated in HPP or in our other foreclosure prevention program, the National Foreclosure Mitigation Counseling (NFMC) program, which we have administered since 2008. Over 14,000 homeowners have received foreclosure counseling and budgeting services from the NFMC program. Our current HPP and NFMC partners employ more than 130 foreclosure counselors/specialists with an average of six-plus years of experience. Based on the success of the HPP and the NFMC program and the partnership networks created to implement them, the Agency is confident it can quickly and effectively assemble a network to administer the proposed MPP.

MPP will provide a **0% interest, non-recourse, deferred-payment, subordinate loan** that will be forgiven in years six through 10 at a rate of 20% per year. The Agency will use loan proceeds to pay the homeowner's mortgage and mortgage-related expenses (i.e., property taxes, hazard insurance and homeowner association dues). These payments will be made directly to the Servicer, not to the borrower. The following types of assistance will be available:

Job Search or Short-term Assistance: To assist unemployed homeowners who may or may not have become delinquent in their mortgage payments after they lost their job, and who need ongoing assistance with their mortgage while they look for a new job.

Job Training/Education or Long-term Assistance: To assist unemployed homeowners who may or may not have become delinquent in their mortgage payments after they lost their job, and who need ongoing help with their mortgage payment while they complete a job training or education program to enhance their job skills and help them secure a new job.

Reinstatement Only or One-time Assistance: To assist homeowners who are working again and can make ongoing mortgage payments but need help to bring their mortgage current.

Loan funds are due and payable if the property is sold, refinanced or no longer owner-occupied (unless otherwise prohibited under applicable federal law). Loans are repayable only from proceeds to the borrower from a sale or refinance. If the property is sold or refinanced and has not increased in equity to the degree necessary to repay the note, all or a portion of the note will be forgiven.

Goal

The Agency estimates **5,750** unemployed homeowners will be assisted over a three-year period. Our projected annual goals for MPP are as follows:

Year 1	**2,500** homeowners assisted
Year 2	**2,500** homeowners assisted
Year 3	**750** homeowners assisted

We have budgeted **$115 million or 72.3%** of HHF to support the program. This allocation assumes an average MPP loan amount of $20,000 per homeowner assisted. This is based on the average loan amount for the Agency's state-supported HPP, which is $15,000. Given that the Agency will be providing a larger amount of assistance to eligible homeowners in targeted or "hardest hit" counties, we increased the average loan amount by approximately 33% for MPP.

Measuring Program Success/Progress

Progress will be measured by the total number of foreclosures prevented. The Agency will collect the following metrics (discussed in greater detail in Section II – item H on page 28)

- Number of homeowners assisted
- Number of homeowners assisted who were six or more months delinquent and in imminent danger of a foreclosure
- Number of homeowners assisted who were six or more months unemployed
- Number of homeowners who completed a job search or job training program and secured employment within two months of their assistance ending
- Number of homeowners who resumed mortgage payments and successfully remained in their home for one to five years after assistance ended

In addition, the Agency will look at the number of homeowners assisted in targeted "hardest hit" counties for all the above metrics to measure the effectiveness of the targeting effort.

Target Populations

For MPP, the target population is **unemployed homeowners who are financially unable to make their payments and are in danger of losing their home**. We will also consider others, who through no fault of their own, are in a similar situation. This includes homeowners who have suffered a short-term illness, divorce, separation or other program-eligible hardship. There are no income limitations; however, the total combined outstanding mortgage amount cannot exceed $275,000.

While MPP assistance will be available statewide, the Agency will provide a larger amount of assistance to homeowners living in targeted or "hardest hit" counties. The Agency defines "hardest hit" counties as the **50** counties with a 2009 unemployment rate at or above 11.3%, the average county unemployment rate for North Carolina. Eligible homeowners who live in these counties can receive up to $36,000 (not to exceed 36 months of assistance). This is 50% more assistance than will be available to homeowners in non-targeted counties, who may receive up to $24,000 (not to exceed 24 months).

Timeline

The Agency expects to implement the program within 45-90 days of approval by Treasury. Implementation will include preparation of marketing materials, legal documentation, and monitoring tools. It will also include training for housing counseling partners. The program will last up to three years. See Exhibit B for a detailed timeline for this program.

Obstacles

The greatest obstacle we anticipate is the dramatic increase in the volume of applications to be reviewed and loans to be delivered, as compared with the current HPP. Many of our housing counselor partners have indicated they currently lack capacity to handle increased volume. We will need to build our own capacity and help our partners build theirs in order to manage the increased volume of applications and loans.

We are exploring ways to strengthen and streamline the approval, closing, and payment documentation processes in order to handle the increased volume efficiently. We are planning to use a web-based portal to receive, underwrite and track applications electronically. We are reviewing the current HPP eligibility and underwriting guidelines to identify ways to make the process more streamlined and efficient. We will also need to add staff to assist with intake, application review, and closing the loans.

To determine how best to help partner agencies increase their capacity, we have sought their ideas through two statewide meetings, conference calls, and a survey of their needs and recommendations. We have also created an Advisory Committee to receive feedback and suggestions.

Leveraging of Other Resources

The proposed MPP builds upon the expertise of the Agency staff, including its Foreclosure Prevention Team and Homeownership Business Group, as well as a strong network of housing counseling partners. MPP also builds upon the Agency's experience managing HPP and the National Foreclosure Mitigation Counseling (NFMC) program in North Carolina.

MPP will complement the new Home Affordable Unemployment Program, available July 1, 2010, by providing assistance to unemployed homeowners who do not qualify for it (e.g., who are more than three months behind, need more than six months to find a job, or do not currently receive unemployment assistance).

A borrower can receive MPP assistance while they look for a new job and then receive Second Mortgage Refinance Program (SMRP) or Permanent Loan Modification Program (PLMP) assistance once they secure a new job if there is a need.

Any funds returned according to established program guidelines will be used to assist additional homeowners through December 31, 2017. After December 31, 2017, the funds will be returned to Treasury.

SECOND MORTGAGE REFINANCE PROGRAM

The Second Mortgage Refinance Program (SMRP**)** will provide a 0% interest, non-recourse, deferred-payment, forgivable, subordinate loan to an estimated **1,000** borrowers who have an unaffordable loan in the current market due to a program-eligible hardship. This program will provide an affordable and streamlined method for permanently reducing the monthly housing expense of re-employed and/or reduced income homeowners who have an outstanding second mortgage.

The program will offer second mortgages to extinguish existing unaffordable second mortgages. The maximum assistance per household is **$30,000** plus closing costs. If $30,000 is insufficient to extinguish the second mortgage, the Agency will offer these funds only if the second lien holder is willing to accept the amount supplied to extinguish the debt without a deficiency judgment.

Additionally, the Agency will require a lender that holds the first and second mortgage to contribute a minimum 20% match of the second mortgage amount if the current combined loan-to-value (CLTV) is greater than or equal to 110%. If the lender only holds the second mortgage and the current CLTV is greater than or equal to 100%, the Agency would then require the lender to make a minimum 20% match of the second mortgage amount.

Loan funds are due and payable if property is sold, refinanced or no longer owner-occupied (unless otherwise prohibited under applicable federal law). Loans are repayable only from proceeds to the borrower from a sale or refinance. If the property is sold or refinanced and has not increased in equity to the degree necessary to repay the note, all or a portion of the note will be forgiven.

Goal

The Agency's proposed Second Mortgage Refinance Program (SMRP**)** will provide assistance to an estimated **1,000** homeowners who are not able afford their second mortgage payment due to a program-eligible hardship. The goal of this program is to extinguish the existing second mortgage and replace it with a 10 year, 0% interest, non-recourse, deferred-payment forgivable subordinate loan. This will reduce the borrower's monthly mortgage payment and in some instances may expedite movement of a qualified applicant into a HAMP first mortgage modification process.

Our annual goals for SMRP are as follows:

Year 1	**400** homeowners assisted
Year 2	**400** homeowners assisted
Year 3	**200** homeowners assisted

To support this program, the Agency has budgeted **$15 million or 9.4**% of HHF. This allocation is based on an estimated average loan amount of $15,000 per borrower.

In addition, the program will be concentrated in areas impacted by high unemployment and a high number of foreclosures.

Measuring Program Success/Progress

The success of the program will be measured by the total number of homes saved and foreclosures averted.

Target Population

For the proposed SMRP, the Agency is targeting assistance to homeowners who have unaffordable second mortgage payments resulting from unemployment or other program-eligible hardship. The proposed program will provide an affordable and streamlined method to permanently reduce the monthly housing expense of re-employed and/or reduced income homeowners.

To be eligible, homeowners cannot have a combined loan-to-value ratio (including SMRP loan) greater than **125%**. There are no income limitations; however, the total current outstanding mortgage balances cannot exceed $275,000.

SMRP assistance will be available ***only*** to homeowners living in a targeted or "hardest hit" county. The Agency has defined "hardest hit" counties as those with a 2009 unemployment rate equal to or greater than **11.3%,** the average county unemployment rate in 2009.

Timeline

The Agency expects to roll out the program within 120-150 days of approval from Treasury. Implementation will include preparation of marketing materials, legal documentation, and monitoring tools. The program will last up to three years. For a more detailed timeline for this program, please see Exhibit B on page 31.

Obstacles

This program should not encounter any major programmatic obstacles or technical issues for implementation. We will build a portal for receiving and processing applications and will work with lenders and servicers, as well as counseling organizations, to market the program.

Leverage

This program will leverage more than **$120** million in private mortgage funds from community banks and mortgage lenders against $15 million from the Hardest Hit Fund.

The Agency will require a lender that holds the first and second mortgage to make a minimum 20% match of the second mortgage amount if the current combined loan-to-value (CLTV) is greater than or equal to 110%. If the lender holds only the second mortgage and the current CLTV is greater than or equal to 100%, the Agency will require the lender to make a minimum 20% match of the second mortgage amount.

This program will also reduce the borrower's monthly mortgage payment and in some instances may expedite movement of a qualified applicant into a HAMP first mortgage modification process.

This program can provide assistance to unemployed homeowners who received MPP assistance and who have become re-employed but may need to extinguish the second mortgage in order to achieve a more affordable monthly mortgage payment because they are now earning less than previously.

Finally, any funds returned according to established program guidelines will be recaptured and used to assist additional homeowners through December 31, 2017. After December 31, 2017, the funds will be returned to Treasury.

PERMANENT LOAN MODIFICATION PROGRAM

The Agency's proposed Permanent Loan Modification Program (PLMP**)** will provide a quick and streamlined method for modifying first mortgage loans of homeowners whose mortgages have become unsustainable as the result of a program-eligible hardship. The program will provide for a principal reduction with the added option of a rate decrease and/or term extension by the lender to achieve a monthly payment that does not exceed 31% of the homeowner's gross monthly income.

The maximum amount of assistance available under the program will be up to $30,000 per loan modification, secured by a 0% interest, non-recourse, deferred-payment, subordinate loan that will be forgiven after 10 years.

An estimated **440** borrowers will be helped by the program. These are individuals who are not able to work out another foreclosure prevention opportunity in the current market due to a recent program-eligible hardship.

Goal

The goal of the program is to reduce the number of homeowners losing their homes to foreclosure. Secondary goals include stabilization of neighborhoods and protecting home values of surrounding properties.

This program will provide immediate mortgage payment relief and stable mortgage payments for the life of the loan.

Our projected annual goals for LMP are as follows:

Year 1	**150** homeowners assisted
Year 2	**150** homeowners assisted
Year 3	**140** homeowners assisted

To support this program initiative, the Agency has budgeted **$8.8 million or 5.6%** of HHF. This allocation is based on an estimated average loan amount of $20,000 per borrower assisted.

Measuring Program Success/Progress

The success of the program will be measured by the total number of homes saved and foreclosures averted.

Target Population

For the proposed **PLMP**, the Agency is targeting assistance to **borrowers who have exhausted all other federal programs for foreclosure prevention** and who can no longer afford their mortgages because of a previous period of unemployment or financial hardship. The proposed program will provide an affordable and streamlined method to permanently reduce the monthly payment for these re-employed and/or reduced-income homeowners. Eligible homeowners cannot have a combined loan-to-value ratio (including PLMP loan) greater than **125%**. There are no income limitations; however, the total current outstanding mortgage balance(s) cannot exceed $275,000.

Timeline

The Agency expects to roll out the program within 150-180 days of approval from Treasury. Implementation will include preparation of marketing materials, legal documentation, and monitoring tools. The program will last up to three years. For a more detailed timeline for this program, please see Exhibit B on page 31.

Obstacles

This program should not encounter any major programmatic obstacles or technical issues for roll-out.

Leverage

Utilizing $8.8 million from the Hardest Hit Fund, this program will encourage a quick, affordable loan modification that will save more than 440 homes in North Carolina.

It is anticipated that certain first-lien providers may consider a reduction in interest income (interest rate reduction) as a result of the loan modification.

This program can also provide assistance to homeowners who have completed MPP-assistance and have become re-employed but are earning less than they were previously.

Any funds returned according to established program guidelines will be recaptured and used to assist additional homeowners through December 31, 2017. After December 31, 2017, the funds will be returned to Treasury.

SECTION II – ITEM C:
DEMONSTRATION OF CAPACITY TO IMPLEMENT

The North Carolina Housing Finance Agency was created in 1973 by the North Carolina General Assembly as a self-supporting public agency to provide access to affordable housing for North Carolinians with low and moderate incomes. To accomplish its mission, the Agency provides capital and technical expertise and builds private and public partnerships, matching its resources with the resources of lenders, builders, local governments, and housing producers throughout the state.

The Agency's programs are funded through both federal (Mortgage Revenue Bonds, HOME Funds, Housing Tax Credits, etc.) and state resources (state Housing Tax Credit Funds, General Assembly-appropriated HOME Match funds, and NC Housing Trust Fund). The Agency uses its resources to fund housing development activities in homeownership, rental production, rehabilitation, rental assistance and supportive housing.

Since its creation, the Agency has provided financing for real estate activity valued at $12.3 billion and helped 196,325 households obtain decent, affordable housing. During 2009 the Agency provided financing and tax credits to support $503.7 million of real estate development. This investment created or rehabitated 4,800 homes and apartments. We also provide housing and rental assistance for 30,299 North Carolina households with low and moderate incomes.

The Agency has business processes in place to receive and disburse federal and state funds to minimize the risk for fraud, waste, abuse, or mismanagement of funds. The Agency has separation of duties between the program groups who underwrite and approve the loans and its finance group that accounts for and disburses the funds. For the fiscal year that ended June 30, 2009, the Agency was considered a low-risk auditee for the Schedule of Expenditures of Federal Awards under OMB 133. No findings were noted during this audit. (Audit, internal controls, and fraud risk mitigation are discussed in greater detail in Section II, item G).

In addition to having a skilled and experienced staff, the Agency has successfully operated the Home Protection Program (HPP) for six years. This program provides the foundation for our proposed Mortgage Payment Program (MPP). The Agency monitors HPP through an in-house software system, which provides the ability to record and track borrower/household data and financial information.

As of May 21, 2010, the Agency had distributed more than **$7.3** million in HPP loans to assist **611** homeowners. Of homeowners assisted, only **30** or **4.93%** of all HPP loans ended in a foreclosure. In addition, 64% of HPP loans have been used to help homeowners complete job training education programs (long-term assistance) and 36% of HPP loans have been used to enable homeowners to conduct a job search (short-term assistance) or to bring a mortgage current (one-time assistance).

In implementing the HPP, the Agency has worked closely with a statewide network of foreclosure prevention partners and will continue to work through this network to administer our proposed MPP. For HPP, partner agencies provide intake and assessment services, help the homeowner submit the application to the Agency, help coordinate the loan closing and provide monitoring and follow-up services. Since 2005, the Agency has provided more than $1.78 million dollars to support foreclosure prevention services provided by our HPP partners. This financial support has been critical to helping them sustain and expand their capacity to serve the dramatic increase in unemployed workers seeking foreclosure prevention assistance over the last two years.

The partnership network built for HPP also helped facilitate the successful administration of the National Foreclosure Mitigation Counseling Grant program (NFMC). The Agency has received NFMC grants in 2008, 2009, and 2010. Sponsored by NeighborWorks®, the NFMC program provides funding for a variety of loss mitigation services by participating housing counseling and legal assistance partners. The program requires careful client tracking, which is monitored and coordinated through an online information system shared by the counseling agencies and the Agency. Since the program's inception, **more than 14,000** North Carolina borrowers have received foreclosure mitigation assistance using NFMC funds. To date, more than $4 million has been provided to help participating agencies expand their foreclosure prevention services.

In addition, the Second Mortgage Refinance Program (SMRP) proposed by the Agency is based on our experience managing similar subordinate lien programs. To design the proposed Second Mortgage Refinance Program, we utilized our experience making loans in all 100 counties in North Carolina working though a network of more than 75 local and national lenders who collectively have more than 700 offices throughout the state.

For the Permanent Loan Modification Program (PLMP) the Agency will draw from the considerable experience gained in managing its portfolio of 16,000 loans under the Mortgage Revenue Bond first-time home buyer program for the past 30 years. This program has achieved a high level of success in maintaining delinquency control and managing servicing processes relating to all forms of loss-avoidance strategies. The Agency monitors and directs the default activities of five servicers, setting performance standards and overseeing loss mitigation processes. The Agency also developed its own intervention program that provides temporary forbearance in the form of payment reductions to borrowers facing imminent foreclosure as a result of financial hardships.

Finally, the Agency has a seasoned staff of experienced underwriters, outreach and business development personnel, closing and legal staff. Its capabilities include an effective quality control process and staff who monitor the performance of the Agency's portfolio and staff activities.

QUALIFICATION AS AN ELIGIBLE ENTITY

In accordance with the HHF Guidelines published by the US Department of Treasury, each recipient of funding from the HHF must qualify as an "Eligible Entity." This is a "financial institution," as that term is defined in the Emergency Economic Stabilization Act ("EESA"). The North Carolina Housing Finance Agency is an Eligible Entity for purposes of the Hardest Hit Fund initiative. The Agency is established and regulated by the State of North Carolina, is a body politic and corporate, and has the power to 1) receive funds from Treasury, 2) enter into contracts, and 3) operate independently of any principal state department, as detailed in North Carolina General Statutes 122A.

KEY STAFF

Bob Kucab, Executive Director
Bob Kucab has been Executive Director of the North Carolina Housing Finance Agency since 1987. Bob oversees a wide variety of housing finance and rental assistance programs that produce affordable housing to benefit thousands of North Carolina households annually. Prior to joining the Agency, Bob was the Executive Director of the Idaho Housing Finance Agency, and he was the Executive Director of the Flint Neighborhood Improvement and Preservation Project, a nonprofit development corporation in Flint, MI. Bob is a former president of the National Council of State Housing Agencies, and he has been a member of numerous industry advisory boards. Under his leadership, the Agency has received numerous national recognitions, including awards for program excellence and innovation from the National Council of State Housing Agencies.

Betsy Rozakis, Chief Financial Officer
Betsy Rozakis has been with the Agency for 10 years as its Chief Financial Officer. Betsy oversees financial reporting, bond issuances, grant financial management, and servicing, including foreclosure prevention programs. Prior to her employment with the Agency, she held various positions, including Tax Credit Investor for a Fortune 500 Company. She also worked for six years in public accounting at Deloitte & Touche. She is a graduate of the University of North Carolina at Chapel Hill and is a Certified Public Accountant.

Charlene Smith, Manager of Mortgage Servicing
Charlene Smith oversees the servicing of the mortgage portfolio of more than $1 billion in single family and multifamily loans owned by the Agency. She also manages the Agency's foreclosure prevention activities, including the Home Protection Program and the National Foreclosure Mitigation Grant. Charlene has 26 years in all aspects of mortgage servicing, with a concentration in default and vendor management. Charlene began her career with First Union Mortgage Corporation, and prior to joining the Agency, she managed the Wells Fargo subservicing relationship for GE Mortgage Servicing. Charlene has her Bachelor of Arts in Business Administration from Campbell University and has a Green Belt Certification – Six Sigma from GE.

Rich Lee, Foreclosure Prevention Team Leader
Rich Lee is the Foreclosure Prevention Team Leader at the Agency. As Team Leader, he helps manage the Agency's two foreclosure prevention programs: the Home Protection Program (HPP) and the National Foreclosure Mitigation Counseling Program (NFMCP). Prior to joining the Agency in August 2008, he served as Executive Director of the Durham Affordable Housing Coalition for eight years and, prior to that, as Housing Development Specialist for eight years. While at the Coalition, he helped secure more than $12 million for various affordable housing programs and organizations. From 1999-2008, he also served on the Board of Directors for the Community Reinvestment Association of North Carolina. In 2008, Rich was recognized by the NC Housing Coalition with a Service Achievement Award. He has a Masters in City & Regional Planning from the University of North Carolina in Chapel Hill and a Bachelors of Arts in Public Policy from Duke University.

Sharon Drewyor, Director of Homeownership Lending
Sharon Drewyor has been with the Agency for 20 years and is responsible for the day-to-day administration of homeownership programs, including the FirstHome Mortgage Program and the Mortgage Credit Certificate Program. Sharon has more than 27 years of experience in the private and public sectors originating, processing, underwriting, closing and servicing mortgages. In addition, Sharon developed and implemented the Agency's Homeownership Quality Control Program and was instrumental in implementing the Agency's Home Protection Program. She served on the FHA business practice and underwriting working group in Washington, DC, and currently serves as a Director for the Mortgage Bankers Association of the Carolinas. She is a graduate of Central Michigan University and received her Graduate of Mortgage Lending designation from the National Association of Professional Mortgage Women.

Rob Rusczak, Manager of Homeownership Production
As the Manager of the Homeownership Production, Rob manages the underwriting process, mortgage loan production, and business development efforts in the Agency's first-time home buyer mortgage program. Most recently, he has been responsible for leading the day-to-day activities of the Agency's $4.2 million Neighborhood Stabilization Program, helping to mitigate the impact of foreclosures across North Carolina. He has more than 15 years of experience in all aspects of the mortgage and banking industry, having worked for the nation's largest mortgage lender for more than four years. Rob began his career as an economist working in the Bureau of Economic Analysis for the US Department of Commerce in Washington, DC. Rob has a BA in Economics from American University and an MBA in Financial Management from Johns Hopkins University.

Bill Dowse, Director of Strategic Investment
Bill Dowse is responsible for the development and management of community-based homeownership, housing rehabilitation and supportive housing programs for the Agency. He oversees programs funded with the state's HOME funds and the North Carolina Housing Trust Fund. Bill has 30 years of experience in housing and in state and local planning. Previously, he has worked in local government as the Assistant Director of a planning and development department in Burlington, IA, he worked for the Florida Department of Community Affairs, and he was the Executive Director of Neighborhood Housing Services programs in Elgin, IL and Durham, NC. Bill has an undergraduate degree in urban affairs from the University of Wisconsin-Oshkosh and master's degree in urban and regional planning from Florida State University.

Patricia L. Amend, Director of Policy, Planning, & Technology
Patricia Amend has been with the Agency for 15 years in various positions involving finance, accounting, grants management, program fund allocation, housing policy, business planning, and information technology. Patricia currently oversees the day-to-day management of policy, planning and technology. She supports two boards and runs special projects, many of which cross departmental lines and partner with other agencies. She was involved with the implementation of the state's foreclosure prevention program in 2004 and coordinated the first and second successful applications for National Foreclosure Mitigation Counseling grants. Prior to joining the Agency, Patricia worked as a financial auditor for Deloitte & Touche. She is a graduate of Miami University, Oxford, Ohio, and a Certified Public Accountant.

Simuel Hodges, Controller
Simuel Hodges is the Controller for the Agency. Simuel oversees operations and grant accounting functions within the Finance Group. He has 14 years of experience at the Agency. He also oversees the Agency's audit, budget, cash management and financial reporting processes. His prior experience includes Duke University Medical Center, City of Greenville, and Lowrimore, Warwick & Co., CPA's. Simuel is a Certified Public Accountant in the State of North Carolina. He has a BSBA in Management Accounting from East Carolina University.

Molly Rodgers, Director of Human Resources and Administration
As the Director of Human Resources and Administration, Molly has more than 20 years of experience in leading the HR and office administration functions at both for-profit and not-for-profit corporations. Molly began her human resources career at a large community action agency near Buffalo, NY, relocating to North Carolina in 1999. In North Carolina, Molly led the recruiting and employment efforts for a large international not-for-profit organization during a major expansion, then led the company through a major downsizing. Before joining the Agency, Molly led the human resources function at a for-profit staffing company and led the company through a major acquisition. As an industry generalist, Molly handles all aspects of human resources from compensation and benefit design to employee relations and legal compliance. In addition to human resources, Molly leads the office administration functions, including records and facilities management. Molly has a BA in sociology and a MS in Human Resource Management from the State University of New York at Fredonia, attended the Cornell University School of Industrial and Labor Relations, and has obtained several industry certifications including the SPHR.

Jennifer Percy, Counsel and Manager of Legal Services
Jennifer Percy has been with the Agency for seven years, where she manages the Legal Services Department. Jennifer's responsibilities include monitoring compliance with federal and state statutes, providing legal advice for the Agency's decision-making, reviewing and analyzing housing-related programs to ensure compliance with applicable federal and state law, and closing both multi-family and single-family loans. Her position requires knowledge of federal and state laws, regulations and various funding sources and programs, including HOME, Neighborhood Stabilization Program (NSP), National Foreclosure Mitigation Counseling (NFMC), Homelessness Prevention and Rapid Rehousing Program (HPRP), and Rural Housing Economic Development. She is a Certified HOME Specialist-Regulations and a Housing Credit Certified Professional. Prior to joining the Agency, Jennifer practiced in the area of commercial lending and banking law.

Jennifer has a Bachelor of Arts in political science from the University of Massachusetts and a J.D. from the University of Connecticut School of Law.

Mark Shelburne, Counsel & Policy Coordinator
Mark is primarily responsible for coordinating the Qualified Allocation Plan for the annual distribution of $250 million in federal and state Housing Credits, tax-exempt bonds, and loan funds. He has also worked with other state agencies on policy development (most recently for stimulus funding), written several articles on affordable housing, and testified before a committee of the US House of Representatives. Prior to joining the Agency in 2001, he was general counsel for a nonprofit equity syndicator. Mark has a B.A. in public policy, J.D., and Masters of Regional Planning from UNC Chapel Hill.

Margaret Matrone, Director of Government Relations and Communications
Margaret Matrone directs marketing, communications and government relations efforts of the Agency, and leads a staff of two professionals experienced in marketing, press relations, event management and legislative affairs. She has 20 years of experience with the Agency. Prior to that, she was Director of Communications at the Kenan Flagler Business School of the University of North Carolina at Chapel Hill, where she had responsibility for state and national media, marketing publications and an alumni magazine. She holds an A.B. degree from Duke University and a M.A. in English from the University of Illinois, Urbana.

SECTION II – ITEM D:
HELP IN AREAS OF ECONOMIC DISTRESS

The Agency proposes to target or concentrate HHF assistance to struggling homeowners living in **50 economically distressed or "hardest hit" North Carolina counties.** We define "hardest hit" as those counties with 2009 unemployment rates **equal to or greater than 11.3%,** the average rate for all North Carolina counties. Finding jobs and resuming mortgage payments may take longer in these communities, so we propose to provide a greater amount of Mortgage Payment Program (MPP) assistance in these counties as well as to provide Second Mortgage Refinance Program assistance exclusively in these counties.

The recession of 2008-2009 posed significant challenges for the state and the nation, but in many respects North Carolina was already in the midst of a broad economic shift before the recession hit. North Carolina traditionally has had a heavy concentration of manufacturing jobs, but it has been losing manufacturing jobs for at least the past two decades. In 1990, the state had more than 800,000 manufacturing jobs. By 2001, roughly 100,000 of those jobs had been lost, but the biggest declines were yet to come. The national recession in 2001 and a change in textile trade quotas in 2005 led to numerous plant closings and lay-offs. By December of 2007, only 532,400 manufacturing jobs remained in the state. In the current two-year downturn, another 100,000 manufacturing jobs have been lost. Across all sectors, more than 277,700 jobs were lost between 2007 and 2009. Not surprisingly, unemployment rates are high statewide, although there are distinct differences among counties.

North Carolina is made up of 100 counties, some urban and some rural. For instance, Charlotte is a regional center for the banking industry, and the Research Triangle Park is known as a center for technology and education. The eastern-most and western-most reaches of the state, however, are largely rural: the mountain counties of the west are part of Appalachia, and the eastern coastal plain includes a wide swath of traditionally agricultural areas. These rural areas have not participated in the shift to the knowledge-based economy that has prospered the urban areas of the state and, in many instances, they have also suffered declines as the agricultural economy has become globalized. Manufacturing in North Carolina has always differed from manufacturing in many northern states because it has not been primarily an urban phenomenon. Many textile factories and furniture factories located in rural areas and small towns as a way to avoid big-city labor problems. When these plants close there are often literally no other employers in the town. Also, the jobs have tended to be low-skill and to require only a low level of education. Once laid off from their factory job, few of these workers can find another job without some form of education or retraining.

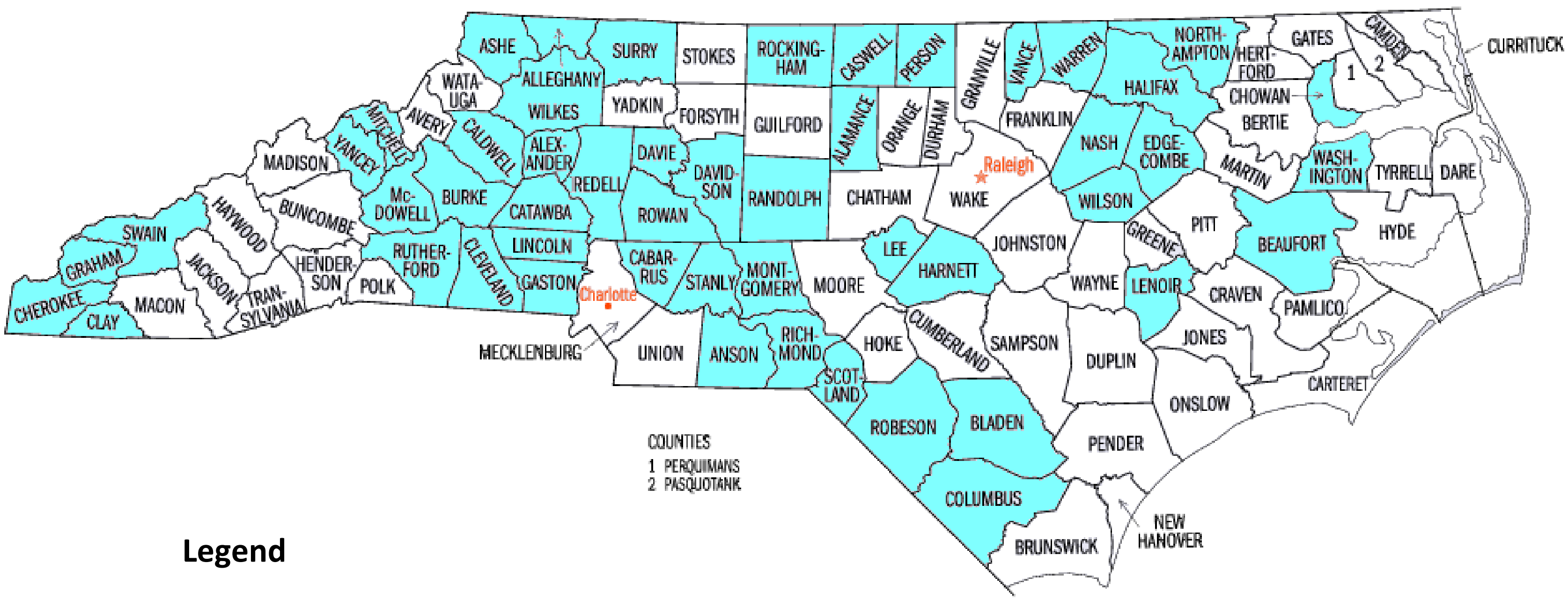
In the current recession, unemployment rates rose very quickly. From January 2008 through April 2010, the state unemployment rate more than doubled, from 5.0% to 10.8%. The statewide average unemployment rate masks the depth of the crisis for some North Carolina counties. In 2009, 35 counties had unemployment rates higher than 12%, and 14 counties had rates higher than 14%. Many of these high-unemployment counties are the same counties where manufacturing was most heavily concentrated, so workers face a double burden—the loss of their jobs, coupled with the knowledge that few, if any, of these jobs will return. Because the job loss is concentrated, there is a high risk that whole communities may be destabilized.

Recent research confirms the key role that unemployment and loss of income play in home foreclosures. According to data from Freddie Mac, 58% of all delinquencies are triggered by unemployment or a curtailment of income. Not surprisingly, many of North Carolina counties with the highest unemployment rates have experienced a large number of mortgage delinquencies or foreclosures. Between December 2008 and December 2009, the number of loans that were more than 90 days delinquent almost doubled, from 2.3% to 4.1%. Anson County, in the rural south central portion of the state, is typical. In 2009, it had an unemployment rate of 14.7%, and 10.7% of the loans in the county were 30 or more days delinquent (according to data from the Federal Reserve Bank of New York). Neighboring Richmond County had an unemployment rate of 14% and a 30-day delinquency rate of 7%. In the past two years, Richmond County lost more than 800 jobs, including 638 in textiles and apparel.

North Carolina's traditional textile, apparel, and furniture industries are visible casualties of the economic downturn, but the current recession has also hit the state's banking industry, in which Charlotte is a major regional center. Between 2007 and 2009, more than 4,000 North Carolina jobs were eliminated in banking, mortgage processing and investment. Many of these jobs were located in the Charlotte metropolitan area, and this concentrated impact has been especially hard on the communities there.

The Agency will target counties with a 2009 unemployment rate at or above 11.3% (the 2009 average for all counties in North Carolina). The 50 "hardest hit" counties are shown on the following map and chart**.**

Figure 1
NC Counties with High Unemployment Rates



Legend

Percent Unemployed

(grey)	6% - 11.2%
(cyan)	11.3% - 18%

Alamance	Chowan	Lenoir	Rutherford
Alexander	Clay	Lincoln	Scotland
Alleghany	Cleveland	McDowell	Stanly
Anson	Columbus	Mitchell	Surry
Ashe	Davidson	Montgomery	Swain
Beaufort	Davie	Nash	Vance
Bladen	Edgecombe	Northampton	Warren
Burke	Gaston	Person	Washington
Cabarrus	Graham	Randolph	Wilkes
Caldwell	Halifax	Richmond	Wilson
Caswell	Harnett	Robeson	Yancey
Catawba	Iredell	Rockingham	
Cherokee	Lee	Rowan	

The Agency will provide the following HHF assistance in these "hardest hit" counties:

Mortgage Payment Program (MPP). Eligible homeowners in targeted or "hardest hit" counties can receive up to $36,000 of assistance (not to exceed 36 months). This is **50% more** assistance than is available to homeowners living in non-targeted counties, who can receive $24,000 (not to exceed 24 months).

Second Mortgage Refinance Program (SMRP). Eligible homeowners in targeted or "hardest hit" counties will be the ***only*** ones that can access this program, which will provide up to $30,000 in the form of a second mortgage to extinguish an unaffordable existing second mortgage.

Permanent Loan Modification Program (PLMP). The Permanent Loan Modification Program will be available in all counties and provides assistance up to $30,000 per homeowner in the form of a first mortgage principal reduction.

SECTION II – ITEM E:
STAFFING & BUSINESS PARTNERS

To implement the Hardest Hit Fund programs, the Agency will use a combination of existing employees, outside contractors, and external partners. The Agency has an experienced staff and a history of successfully implementing programs in collaboration with other North Carolina state agencies and external partners. The staffing plans for our programs are as follows:

Mortgage Payment Program

This program is the largest and most labor-intensive of the proposed programs. The Agency projects that it will incur the largest share of the administrative costs. The Agency anticipates that four foreclosure prevention staff positions will be dedicated to this program. In addition, it will hire contractors to assist with underwriting loans, preparing loan documents, and closing loans. These staffing estimates are based on from the Agency's experience managing our existing Home Protection Program (HPP).

The Agency also plans to expand its statewide network of foreclosure prevention service partners to help with administration and delivery of this program. Partner agencies will provide intake and assessment services, help eligible homeowners apply for assistance, coordinate the loan closing process for approved borrowers, and provide monitoring and close-out services. To reach our projected MPP goal of assisting 5,750 homeowners, the Agency proposes a total budget of **$ 9.66 million** in partner payments *($8.63 M for years 1-3 + $1.03 M for years 4-7).* The payment structure will include the following components:

1. Monthly partner payments based on meeting a *minimum* production goal of MPP loans closed. The monthly payment will help cover the cost of at least one employee (full or part-time) dedicated to MPP plus applicable administrative and overhead expenses.

   The Agency will set aside additional funds to compensate partner agencies that exceed their original production goals and to provide funding for new partner agencies that are added to the MPP program.

   Partner agencies that are ***not*** on track to meet their minimum production goals will have their monthly payments reduced or terminated. The Agency will review partner agency production numbers at least quarterly and make appropriate payment adjustments.

   Budgeted: **Up to $ 8.0 million**

2. Administrative funds to reimburse partner agencies for specific program-related expenses, including recording fees for filing Deeds of Trust and fees for pulling credit reports.

   Budgeted: **Up to $ 627,750.**

3. Funds to cover services provided by partner agencies in years four through seven (2014-2017). Our budget assumes HHF loans will be paid back due to homeowners selling or refinancing their homes and these funds will be recycled through MPP to assist additional homeowners.

   Budgeted: **Up to $ 1.028 million**

   Total: **$ 9.66 million** *($8.63 M for years. 1-3 + $1.03 M for years. 4-7)*

The proposed delivery system and payment structure are based on the Agency's experience administering the Home Protection Program (HPP) and the National Foreclosure Mitigation Counseling (NFMC) program, as well as feedback from our partner agencies. With each of these programs, the Agency has linked its services with local foreclosure prevention partners in order to achieve a more effective presence in the community. The statewide network of foreclosure prevention partners covers both urban and rural communities. Table 1 on page 24 has a chart listing partner agencies by county. To handle the projected 5,750 homeowners, we will need to expand the capacity of our existing partners as well as add new partners to our network.

Second Mortgage Refinance Program

The Agency will assign one current staff underwriter to this program and one current servicing analyst, and will also use staff attorneys to create loan documents.

The Agency will also partner with HUD-approved housing counseling agencies, community banks, servicers, credit unions, and mortgage lenders working in the 50 “hardest hit” counties. These partners will refer prospective clients for assistance.

Permanent Loan Modification Program

The Agency will assign one current staff underwriter to this program and one servicing analyst, and will also use staff attorneys to create loan documents. The Agency will also partner with HUD-approved housing counseling agencies, community banks, servicers, credit unions, and mortgage lenders to refer prospective clients to this program.

Table 1.

HPP Counseling Agencies that Serve NC Counties (** indicates there are two or more agencies that serve this county)					
COUNTY	**Counseling Agency**	**County**	**Counseling Agency**	**County**	**Counseling Agency**
ALAMANCE	CCCS of Greensboro	FRANKLIN	Franklin-Vance-Warren Opportunity	PAMLICO	CCCS of Fayetteville**
ALEXANDER	Alliance Credit Counseling**	GASTON	Alliance Credit Counseling**	PASQUOTANK	Northeastern CDC**
ALLEGHANY	CCCS of Forsyth**	GATES	Northeastern CDC**	PENDER	AMEZ Housing CDC**
ANSON	Alliance Credit Counseling**	GRAHAM	OnTrack Financial Education and Counseling	PERQUIMANS	Northeastern CDC**
ASHE	CCCS of Forsyth**	GRANVILLE	Franklin-Vance-Warren Opportunity	PERSON	Franklin-Vance-Warren Opportunity
AVERY	Northwestern Regional Housing Authority**	GREENE	CCCS of Fayetteville**	PITT	CCCS of Fayetteville
BEAUFORT	CCCS of Fayetteville	GUILFORD	CCCS of Greensboro	POLK	CCCS of the Carolina Foothills**
BERTIE	CADA	HALIFAX	CADA	RANDOLPH	CCCS of Greensboro
BLADEN	CCCS of Fayetteville**	HARNETT	CCCS of Fayetteville**	RICHMOND	CCCS of Fayetteville**
BRUNSWICK	AMEZ Housing CDC**	HAYWOOD	OnTrack Financial Education and Counseling	ROBESON	CCCS of Fayetteville**
BUNCOMBE	OnTrack Financial Education and Counseling	HENDERSON	OnTrack Financial Education and Counseling	ROCKINGHAM	CCCS of Greensboro**
BURKE	Western Piedmont Council of Governments	HERTFORD	CADA	ROWAN	Alliance Credit Counseling**
CABARRUS	Alliance Credit Counseling**	HOKE	CCCS of Fayetteville**	RUTHERFORD	CCCS of Carolina Foothills
CALDWELL	Western Piedmont Council of Governments	HYDE	CCCS of Fayetteville	SAMPSON	CCCS of Fayetteville**
CAMDEN	Notheastern CDC**	IREDELL	Alliance Credit Counseling**	SCOTLAND	CCCS of Fayetteville**
CARTERET	CCCS of Fayetteville**	JACKSON	OnTrack Financial Education and Counseling	STANLY	Alliance Credit Counseling**
CASWELL	CCCS of Greensboro	JOHNSTON	CCCS of Fayetteville**	STOKES	CCCS of Forsyth
CATAWBA	Alliance Credit Counseling**	JONES	CCCS of Fayetteville**	SURRY	CCCS of Forsyth
CHATHAM	CCCS of Fayetteville**	LEE	CCCS of Fayetteville**	SWAIN	OnTrack Financial Education and Counseling
CHEROKEE	OnTrack Financial Education and Counseling	LENOIR	CCCS of Fayetteville	TRANSYLVANIA	OnTrack Financial Education and Counseling
CHOWAN	Northeastern CDC**	LINCOLN	Alliance Credit Counseling**	TYRRELL	None
CLAY	OnTrack Financial Education and Counseling	MCDOWELL	OnTrack Financial Education and Counseling	UNION	Alliance Credit Counseling**
CLEVELAND	Cleveland County CDC**	MACON	OnTrack Financial Education and Counseling	VANCE	Franklin-Vance-Warren Opportunity
COLUMBUS	AMEZ Housing CDC**	MADISON	OnTrack Financial Education and Counseling	WAKE	Telamon Corporation**
CRAVEN	CCCS of Fayetteville**	MARTIN	CCCS of Fayetteville	WARREN	Franklin-Vance-Warren Opportunity
CUMBERLAND	CCCS of Fayetteville**	MECKLENBURG	Alliance Credit Counseling**	WASHINGTON	None
CURRITUCK	Northeastern CDC	MITCHELL	Northwestern Regional Housing Authority**	WATAUGA	Northwestern Regional Housing Authority**
DARE	Northeastern CDC	MONTGOMERY	CCCS of Fayetteville**	WAYNE	CCCS of Fayetteville
DAVIDSON	CCCS of Greensboro**	MOORE	CCCS of Fayetteville**	WILKES	Northwestern Regional Housing Authority
DAVIE	CCCS of Forsyth	NASH	Rocky Mount/ Edgecombe CDC	WILSON	CCCS of Fayetteville**
DUPLIN	CCCS of Fayetteville	NEW HANOVER	AMEZ Housing CDC**	YADKIN	CCCS of Forsyth
DURHAM	Telamon Corporation**	NORTHAMPTON	CADA	YANCEY	Northwestern Regional Housing Authority**
EDGECOMBE	Rocky Mount/ Edgecombe CDC	ONSLOW	CCCS of Fayetteville		
FORSYTH	CCCS of Forsyth	ORANGE	Triangle Family Services		

SECTION II – ITEM F:
ADMINISTRATIVE EXPENSES

The Agency has budgeted $10.2 million to cover estimated costs over the next seven years. These costs include salary, marketing, auditing, and technology. Additionally, we have budgeted $10 million to cover our partners' costs for borrower intake. This amount also includes the cost of operating a call center, and recording fees for all of the loans for the three programs.

For additional information on staffing projections, please see Section II. Item E. Please see Exhibit C on page 32 for a complete breakdown of Administrative Expenses.

SECTION II – ITEM G:
RISK MANAGEMENT/FRAUD PREVENTION

The Agency maintains an accounting procedure manual for its major processes, which includes cash management, receivables, servicing, accounts payable, operations, and grants management. Agency staff review these processes annually to make sure proper policies, procedures and segregation of duties are in place to minimize the possibility of fraud, illegal acts and violation of the provisions of contracts, and to ensure compliance with grant agreements. A multiple-discipline task force is created every time the Agency receives a new grant or funding source, including staff from the business group that manages the program as well as staff from Information Technology, Policy, Finance, Legal and Servicing. The task force analyzes the requirements of the grant and ensures the entire Agency is working to meet them. Task force members develop policies and procedures under the grant guidelines. The task force operates under the direction and approval of the Directors.
The business group that operates a grant program is responsible for the monitoring under the grant agreement, OMB Circulars 133, A-87 and federal and state regulations. The Accounts Payable and Cash Management teams, which are a part of Finance, monitor the cash receipts and disbursements daily to ensure compliance with each grant agreement. The Grants team reconciles the Agency's federal and state funds financial statements monthly. In addition, these funds are reconciled to federal and state reporting systems at least quarterly. The Grant team in Finance reviews and monitors subrecipient financial statements to ensure grant funds are reported properly and included in the Subrecipient's Schedule of Expenditures of Federal Awards.

The Agency also maintains an electronic program library that defines each program and the compliance requirements for each grant under the federal and state guidelines. The library lists all the compliance requirements under OMB133 that are applicable to the program. The areas addressed are the control environment, risk assessment, control activities, information and communication and monitoring over the activity.

An audit is performed after each fiscal year (June 30th) by the Agency's independent audit firm. This audit encompasses a financial and compliance examination of the Agency's basic financial statements, supplementary information and compliance reports in accordance with the laws and/or regulations of the State of North Carolina, which include requirements for the minimum scope of the audit. The financial and compliance audit covers federal, state, and local funding sources in accordance with generally accepted auditing standards; Government Auditing Standards; the Single Audit Act of 1984; the Single Audit Act Amendments of 1996; the provisions of OMB Circular A-133; Audits of State, Local Governments, and Non-Profit Organizations; the State Single Audit Implementation Act; and applicable laws and regulations.

The Agency hires an outside firm, MGT of America, Inc., to compile a certified Cost Allocation Plan at the end of each fiscal year in accordance with OMB Circular A-87, which establishes the principles and standards for determining both direct and indirect costs for federal cost-based awards. The Agency establishes timesheet codes for each federal and state program. All of the Agency's employees complete a monthly timesheet recording the amount of time worked on each program as well as administrative duties. The timesheet data as well as other factors, are used to allocate the costs of the Agency to the various programs. The Agency has cost centers (projects) that track all eligible operating expenses directly associated with a federal or state grant. The Agency plans to use the cost allocation to substantiate the costs for the Hardest Hit Fund.

During Fiscal Year 2009, the Agency administered five federal programs. The Section 8 Programs and the HOME Investment Partnerships Program (HOME Program) represent 82% ($134,280,000) and 16% ($26,798,000) respectively, of federal program expenditures of $164,088,000. The HOME Program is partially matched with funds appropriated by the General Assembly. In 2009, the General Assembly appropriated $14,839,000 to be used to make loans under the Housing Trust Fund and Home Protection Program (HPP) and to provide a partial match for federal HOME funds. During the fiscal year ending June 30, 2009, the Agency was considered a low-risk auditee, and there were no findings or questionable costs reported.

During the fiscal year 2010, the Agency was awarded additional federal funding through the following programs:

Section 1602 Grants for Low Income Housing (In lieu of Low Income Housing Credits), US Treasury	$95,000,000
Neighborhood Stabilization Program HUD, Pass through NC Department of Commerce	$4,200,000
Housing Counseling Grant, HUD	$83,416
Tax Credit Assistance Program, HUD	$52,152,687
Total	$151,436,103

The Agency's accounting software system is Serenic Navigator. The account number structure is fund-program-project-unit-account number, which allows for versatile reporting providing detail down to the unit level or grouped to the program level. The Agency's Fund Control system also tracks the fund-program-project-unit by source of funds, allocations, commitments, awards and disbursements of funds by cycle. Fund Control operates like a budget system, comparing allocated to awarded to actual, which prevents disbursements in excess of an award. Serenic Navigator and Fund Control are integrated, which allows the Agency flexibility in the tracking and reporting of grants to meet the needs of federal agencies, the North Carolina State Controller's Office, Independent Auditors, Subrecipients and Vendors. The Agency would use both of these systems to provide detail or summary information to Treasury on the Hardest Hits Funds.

The Agency maintains all its accounting records at its office located at 3508 Bush Street, Raleigh, NC 27609. It maintains its cash receipts journal, cash disbursements journal, general ledger, and accounts receivable ledger on a local area network. The Agency maintains its network infrastructure in-house utilizing Microsoft's Best Security Practices, along with its own network security policy. Daily back-up data tapes are secured off-site in a climate-controlled, highly secured vault.

The Agency's annual audited Financial Statements and Schedule of Federal Awards are on its website: http://www.nchfa.com/About/financialstatements.aspx. Financial records are maintained onsite at the Agency for four years. Records older than four years are maintained offsite in a secured environment.

Monitoring and Fraud

The Agency will underwrite each loan before closing. In addition, the Agency will service each of the loans that are originated with Hardest Hit Funds. It will actively monitor the counseling agencies and will receive electronic updates from them on the success of the borrowers who have been assisted. These are the following activities the Agency will perform for each program to ensure that eligible borrowers are receiving the assistance.

The Agency will conduct the following quality assurance activities.

1) Underwriting of each loan by Agency staff
2) Verification of the recipient's identity at closing
3) Loan servicing in-house
4) Quality Control within the Agency to verify and document
    a. Borrower Eligibility Criteria
    b. Property/Loan Criteria
    c. Program Exclusions
    d. Program Duration/Extension

In addition, the Agency implemented a Homeownership Quality Assurance Program in 1989 to ensure the integrity of the loan package documentation in originating, processing, underwriting and closing processes through a systemized review of a percentage of all loan packages. The post-closing audit review system includes Early Term Default Audits (e.g., loans delinquent more than 60 days within the first twelve months), Internal Quality Control Process (e.g., randomly selected loans underwritten by each homeownership mortgage analyst), and External Quality Control Process (e.g., 10-15% sampling of loans closed through participating lenders over a 12- month period).

Policies, procedures and internal controls for HHF will be modeled on existing successful processes, including reviewing our partner's activities, documentation, compliance with HHF contractual agreements and internal controls.

In preparation for receipt of HHF funds, the task force will include a Quality Assurance Auditor. The Agency has created this position to ensure compliance with all requirements under EESA, including compliance oversight, internal controls and fraud prevention. The Director of Homeownership Lending developed the Agency's homeownership quality control program in 1989 and will be taking on a similar role for our HHF compliance review program. The Director's experience with the Agency includes compliance reviews based on federal and/or state funding sources including reviews of internal and partners' program activities. The Director of Homeownership will work closely with the Chief Financial Officer, Controller, Legal Counsel, and the Agency's independent auditors to design an effective quality control plan. The plan will include a readiness assessment and documentation of internal control procedures to ensure proper controls are in place. The Quality Assurance Auditor will report directly to the Executive Director and the Audit Committee of the Board of Directors.

SECTION II – ITEM H:
TRACKING & REPORTING

The Agency maintains a sophisticated suite of in-house software, also known as its line of business (LOB) systems. The LOB systems combined with the Agency's financial accounting and servicing systems provide the ability to record and track all financial data, borrower/household data, and other organizational entity data as explained below.

A separate budget will be maintained for the Hardest Hit funds and every transaction against these funds will be tracked within the Agency's Fund Control and Serenic Navigator systems. These systems are used to track all Agency appropriations (state, federal, local) from inception to disbursement.

The Agency will utilize our existing LOB systems for program management, case management, and the tracking/recording of pertinent data fields for Hardest Hit programs. These systems will be leveraged as built or modified as needed to support the Hardest Hit programs. They record and track multiple layers of property and borrower data fields, including, but not limited to the following: property address, appraised values, income, number of occupants, age of occupants, loan-to-values (LTVs), and loan performance monitored on a monthly basis. These systems support case management workflows and have multiple pre-formatted reports and report generation capabilities for parsing data as needed on an ad hoc basis.

In addition, the Agency plans to use a web-based portal to facilitate the promotion and collaboration among all key stakeholders including counseling agencies, servicers, lenders, and borrowers. Data and documentation from the web-based portal will be downloaded to the Agency's LOB Systems on a periodic basis to support program management and borrower/case review, underwriting, loan closings, etc.

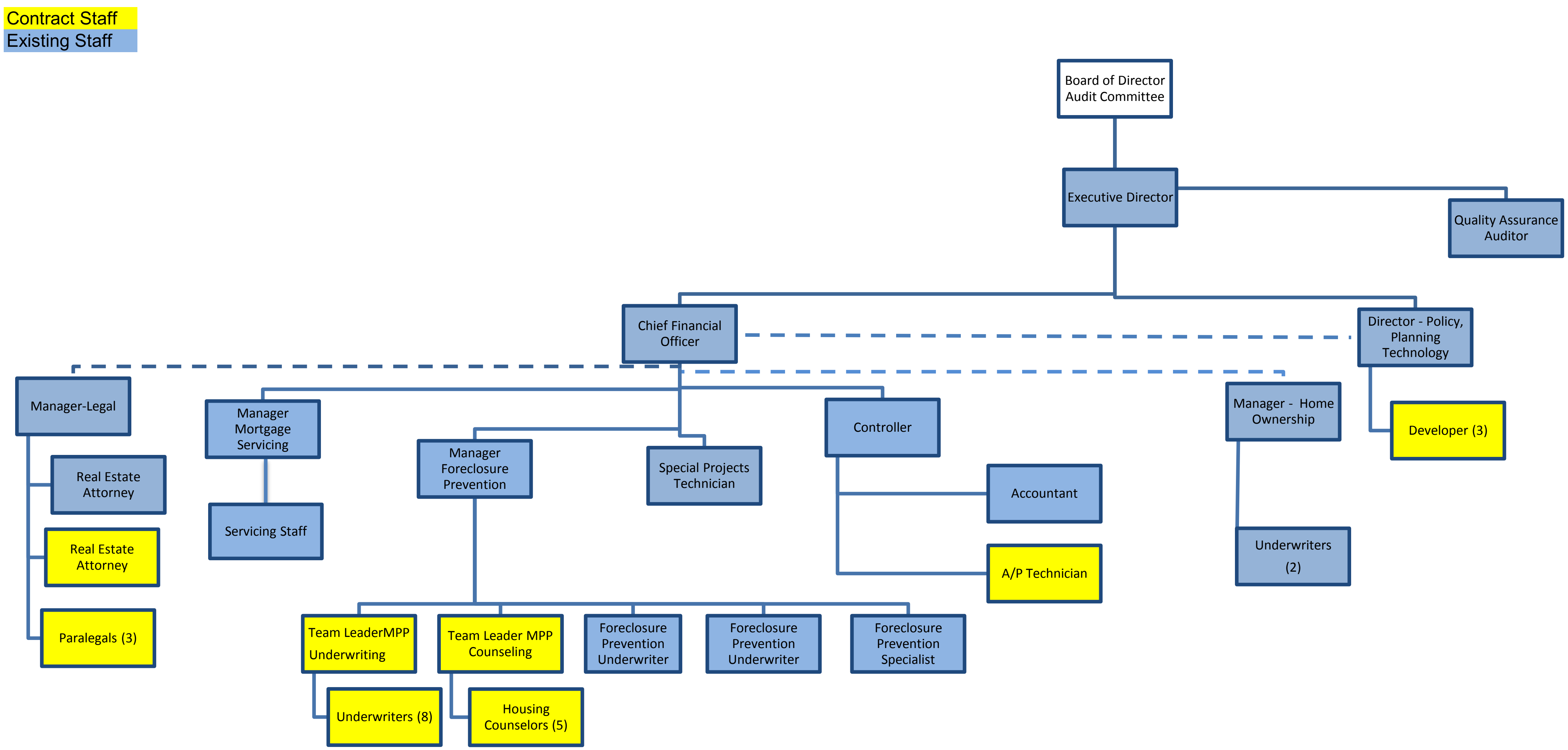
The Agency proposes the following program success metrics to be reported quarterly or as requested by Treasury:

- Expected vs. actual figures by program for funds disbursed and homeowners assisted
- For existing homeowners assisted:

- Number of unemployed who were six months or more delinquent in their mortgage and in imminent danger of foreclosure (MPP, SMRP, and PLMP)
- Number who completed a job search and/or job training/education program and secured employment within two months of assistance ending (MPP)
- Number who resumed mortgage payments and successfully remained in their home one to five years after assistance ended (MPP, SMRP, and PLMP)
- Number assisted within targeted counties (MPP,SMRP, PLMP)
- Number of foreclosures averted (MPP,SMRP, PLMP)

Exhibit A

NCHFA Hardest Hit Programs Organization Chart



NCHFA Hardest Hit Programs Organization Chart

Exhibit A