

Hardest Hit Fund Proposal

New Jersey Housing and
Mortgage Finance Agency
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NEW JERSEY HOMEKEEPER PROGRAM HARDEST HIT FUND PROPOSAL

STATEMENT OF PURPOSE

The New Jersey Housing and Mortgage Finance Agency HomeKeeper Program will be created and implemented to provide an unemployment bridge program that will pay some portion of an unemployed or underemployed borrower's mortgage while they search for work.

INTRODUCTION

The New Jersey Housing and Mortgage Finance Agency (NJHMFA) appreciates the opportunity to apply for funding under the Treasury's Housing Finance Agency Innovation Fund for the Hardest Hit Housing Markets (HHF). The \$112 million in HHF funds will provide much needed financial assistance to unemployed and underemployed New Jersey homeowners who are threatened with the loss of their homes due to their inability to make mortgage payments.

The State's economy has been slow for the better part of the decade; even before the national recession, New Jersey was losing jobs. Most of those losses came from the private sector. However, it is a time of retrenchment for local governments and school districts whose residents cannot afford higher taxes. Many police and teacher contracts will be negotiated over the next year or two and the need to trim municipal budgets will put some of them out of work.

The fallout from the large number of residents who have lost their jobs is a burgeoning foreclosure inventory of homes that are very hard to move. Foreclosure indicators posted for the first quarter of 2010 by the Center for Responsible Lending show 192,057 past due mortgages in NJ and predict that there will be approximately 77,500 foreclosure actions this year. There are currently 54,834 properties statewide in pre-foreclosure.

There have been attempts at every level of government, as well as intensive grass roots efforts to stem the impact of foreclosures, but the toll has spread from families to whole neighborhoods. The NJ towns feeling the greatest impact of destabilizing foreclosures are Newark, Trenton, Paterson, Jersey City, Elizabeth, Toms River, East Orange, and Irvington. These are cities where the State has heavily invested both state and federal dollars in redevelopment. In those communities, failure to bolster homeowners whose financial solvency is at risk will reverse decades of planned community development and generate a social cost to the public far larger than the cost of relatively short-term mortgage assistance.

The NJHMFA has implemented various foreclosure prevention and asset preservation programs. HMFA currently administers three foreclosure prevention programs- The New Jersey Judiciary Foreclosure Mediation (NJJFM) Program, the Mortgage Assistance Program (MAP) and the National Foreclosure Mitigation Program. The State allocated \$15.2 million to the NJJFM and MAP programs.

Drawing on our experience with foreclosure and foreclosure related programs and the expertise of our partners including housing counseling agencies, the NJHMFA has developed an HHF program entitled the *New Jersey's HomeKeeper Program* (NJHK). The goal is to prevent over

2,500 households from foreclosure. We have designed the program to not only help New Jersey households make their mortgage payments but also, once the subsidy is no longer necessary, to ensure that this assistance will lead to sustainable homeownership.

I. 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” in order to receive these funds. An Eligible Entity is a “financial institution” as defined in the Emergency Economic Stabilization Act (“EESA”). The NJHMFA is an Eligible Entity for the purposes of the Hardest Hit Fund initiative. Pursuant to its enabling statute, N.J.S.A 55:14K et. seq., the NJHMFA is established and regulated by the State of New Jersey, 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. Relevant portions of N.J.S.A 55:14K and the NJHMFA By-laws are attached as **Exhibit H.**

II. BUSINESS PLAN

A. OVERVIEW OF PROGRAM

1. Detailed Information and Goals

Goal 1: To Prevent Foreclosure for Unemployed and Underemployed NJ residents

NJHMFA proposes the NJHK which will assist unemployed and underemployed homeowners by paying a portion of their monthly mortgage payment for a period of 24 months and/or a one time payment to cure mortgage arrears to allow them time to seek employment or complete job training and to keep their homes.

Goal 2: To Preserve Local Communities

The NJHK is also designed to promote neighborhood stability in New Jersey communities by providing assistance with mortgage arrears and mortgage payments to eligible homeowners who, through no fault of their own, are in danger of foreclosure due to a temporary loss of employment or unexpected underemployment and are in the process of seeking work or job training that will enable them to resume making their mortgage payments. NJHK is based on the recognition of the severity of both the unemployment and the foreclosure crisis in our state and its impact on local neighborhoods.

2. New Jersey Unemployment Statistics: Prior to the recession, New Jersey’s unemployment rate was traditionally less than the national average by .5%. Today, however, New Jersey is experiencing one of the nation’s highest rates of unemployment of 9.8% or 440,400 residents out of work, of which the majority do not qualify for existing foreclosure programs. The unemployment rate has climbed exponentially from 202,800 in December 2007 to 439,400 in July of 2010. Underemployment, or those unemployed or working part-time but wanting full-time employment, was 18.4% in July according to a nationwide Gallup poll. Although New Jersey does not possess underemployment data, during the recession, New Jersey has been closely aligned with the national performance of underemployment.

The recession's impact has been felt across almost all industry sectors in New Jersey, accounting for the loss of more than 231,000 private sectors jobs between December 2007 and July 2010. The largest job losses occurred in the trade, transportation and utilities super-sector, with 64,900 jobs lost. Construction employment and the financial sectors recorded substantial job losses as demand for new home construction plummeted in the wake of the mortgage and housing crisis and resulting credit squeeze.

Homeowners facing temporary or sudden job loss are particularly vulnerable to experience delinquent mortgage payments and/or foreclosure. According to data from Freddie Mac, 58% of all delinquencies are triggered by unemployment or curtailment of income. The increased rate of unemployment has resulted in record residential foreclosure filings. The New Jersey Administrative Office of the Courts reports that since 2007, Residential Foreclosure Writ of Executions have nearly doubled, from 9,523 in 2007 to 16,308 in 2010.

Foreclosure causes neighboring homes to experience significant devaluation. New Jersey has been hit especially hard with foreclosure, according to the Center for Responsible Lending, an estimated 235,881 homes will be foreclosed between 2009 and 2012. The Center estimates the "spillover impact" of foreclosure will cause more than 3.2 million homes in New Jersey to experience devaluation between 2009-2012, worth more than \$66 million or an average loss of \$20,000 in value per home.

3. How NJHK addresses the Unique Needs of New Jersey: Given the current economic crisis, which was brought on by rising unemployment and home foreclosures, as well as the length of time it can take for a person to find comparable new employment, unemployed New Jersey homeowners will benefit from a short-term mortgage assistance program. Through NJHK, New Jersey would not only prevent mortgage delinquencies, but would also stabilize entire communities through overall reduction in future residential foreclosures. The program is designed to address the challenges brought on by 1) the increased rate of mortgage delinquencies, 2) the seemingly unending rate of foreclosure filings, and 3) loss of income due to sudden job loss or temporary financial setbacks.

4. Program Elements: NJHR has two primary program elements: 1) Mortgagors who had lost their jobs and have recently become employed may receive a one-time payment to settle mortgage arrearages to bring their mortgage current; 2) Unemployed or underemployed mortgagors may receive a loan to cover arrearages as needed and an approved amount of mortgage payment assistance while seeking employment or while participating in a job training program. The mortgage assistance payments will be for a period of time not exceeding 24 months. The amount of assistance will be determined by an underwriting of the assistance loan, but in no event will the total loan amount exceed \$48,000. A mortgage payment includes principal and interest, property taxes, homeowner insurance, mortgage insurance and, if applicable, homeowner association fees.

NJHMFA will create a six-month pilot program using the criteria in the term sheet attached as Exhibit A. NJHMFA, along with key stakeholders, will review the program

criteria at the end of the six-month pilot period and will, at that time, make necessary changes to the NJHK program to better serve the unemployed and underemployed homeowners in New Jersey. **Exhibit B** illustrates the NJHK Program Flow Chart.

All assistance shall be provided to the homeowner in the form of a 0% interest rate, deferred-payment, non-recourse loan secured by a mortgage that may take any lien position on the home. The NJHK mortgage loan shall require no monthly payments from the homeowner. Within the first five years of the closing date of the NJHK mortgage loan, the full amount of the NJHK mortgage loan shall be due and payable upon the sale or upon the transfer or upon the refinance of the property (except for a lower rate/term refinance) or if the applicant ceases to occupy the property as his/her primary residence. After the fifth year, the NJHK mortgage loan amount shall be forgiven 20% per year, to be forgiven in full at the end of the tenth year.

The housing counseling agency shall recommend - and the NJHK staff shall review for approval - a plan of action for each homeowner that addresses the proposed use of NJHK mortgage loan proceeds for these key purposes: (1) one-time payment to settle mortgage arrearages for homeowners who experienced lost employment income and have since found new work but need help to bring their mortgage current; and/or (2) payment of arrearages as needed and an approved amount of mortgage payment assistance while the homeowner actively seeks work or participates in an approved job training program. The homeowner will be expected to report on and document employment status on a regular basis in accordance with program requirements.

5. **Timeline to Deploy Funds:** NJHMFA anticipates a program start date within 90 days of the receipt of funding from Treasury. During this period, we will prepare marketing materials, develop processes, install administrative infrastructure, train staff and partners, finalize the legal documentation, create methods of monitoring and reporting, and conduct a statewide outreach program with a focus on cities receiving federal Neighborhood Stabilization Program funding. The program will be available for a period of three years. It is anticipated that approximately 1,200 loans will be made the first year, 800 in the second year and 500 in the third year due to the number of unemployed/underemployed homeowners who are already at risk of losing their homes. Subsequent originations may be made through December 31, 2017, using homeowner loan repayment funds. Depending on the duration of unemployment or underemployment, size of the monthly payments and other variables, the actual amount of NJHK loans could be 4,000 or more. **See Exhibit C** for detailed timeline.

6. **Feedback from Stakeholders:** The program will benefit from an existing coalition consisting of government, the banking community and non-profit entities. For nearly five years, these groups have worked to develop strategies and programs designed to prevent foreclosures. The stakeholders will meet regularly and will serve as an informal advisory committee for this program. The NJHK initiative will be part of this continuing communication and NJHMFA will continue to seek guidance from many stakeholders including:

- Housing and Community Development Network of New Jersey (HCDNNJ) – HCDNNJ is an organization comprised of several hundred locally based housing and community development not-for-profit organizations.
- Certified Foreclosure Prevention Counseling Agencies - NJHMFA currently contracts with 22 counseling agencies, covering all 21 New Jersey counties. The counseling agencies have been actively providing foreclosure prevention counseling in conjunction with NJHMFA's foreclosure prevention programs.
- New Jersey Department of Banking and Insurance (DOBI) - The NJHMFA collaborates extensively with DOBI on public outreach and working with their consumer protection office. The Commissioner of DOBI is an *ex-officio* NJHMFA Board member.
- Administrative Office of the Courts (AOC) - AOC partners with the NJHMFA in administering the New Jersey Judiciary Foreclosure Mediation Program (NJJFM). AOC has taken the lead in training over 700 participating mediators.
- New Jersey Mortgage Bankers Association (NJMBA) - NJHMFA is a member of the NJMBA and approximately 50% of NJHMFA's participating lenders are NJMBA members.
- New Jersey Department of Law and Public Safety (NJDOL) - The Division of Consumer Affairs is a unit within NJDOL dealing with consumer's mortgage foreclosure-related complaints from consumers. The Attorney General is an *ex officio* member of the NJHMFA Board.
- Department of Housing and Urban Development – Newark Field Office and Philadelphia Homeownership Center - NJHMFA collaborates regularly with the local HUD offices on outreach and lending programs.
- Legal Services of New Jersey (LSNJ) – LSNJ is active in foreclosure prevention litigation on behalf of low income homeowners and also works with the NJHMFA and AOC on the New Jersey Judiciary Foreclosure Mediation Program NJJFM).
- New Jersey Association of Realtors (NJAR) - NJHMFA has participated in NJAR forum and joint webinar presentations to real estate professionals. NJAR addresses policy concerns such as foreclosure.
- Essex-Newark Task Force - This is a coalition of government and non-profits that actively pursue solutions to the foreclosure problems facing the State's largest city and its surrounding suburbs. NJHMFA is an active participant.

7. Program Implementation Obstacles and Related Mitigation Plan: Due to the number of New Jersey homeowners who are already at risk of losing their homes resulting from unemployment or underemployment, we anticipate receiving a large number of applications in the first six months of the program. NJHMFA will develop ways to streamline the loan processes to administer the large volume of applications. It is anticipated that we will issue a Request for Proposals to identify a web-based portal system to be used to accept applications and determine eligibility, to refer applicants to participating housing counselors, to perform the initial of underwriting of the loans, and provide the required reports to Treasury. NJHMFA will also need to retain additional staff to assist with the Program.

To help ensure that the assistance has the maximum local impact and leads to sustained homeownership, NJHMFA will require that all applicants meet with a housing counselor affiliated with a HUD-certified counseling agency. We currently contract with HUD-

certified counseling agencies to assist clients participating in our existing foreclosure prevention programs. These agencies have retained full-time counselors who are dedicated exclusively to clients participating in the NJHMFA foreclosure programs. Prior to participating in any NJHMFA program, the counselor must demonstrate that they have completed the extensive five-day Neighbor Works America course- HO345- Foreclosure Prevention and Asset Preservation. These agencies have indicated to us that they are at caseload capacity. HMFA will issue a Request for Qualifications in order to contract with the counselors needed to implement the NJHK program. NJHMFA will need to assist these agencies in building capacity in order to handle the increased caseload resulting from the NJHK program.

8. Leveraging of Treasury Funds: The NJHK program will complement existing programs administered by the NJHMFA. The NJHMFA administers three foreclosure prevention programs - The New Jersey Judiciary Foreclosure Mediation (NJJFM) Program, the Mortgage Assistance Program (MAP), and the National Foreclosure Mitigation Program (NFMC). NJJFM is designed to resolve residential foreclosure actions by proposing work-out and payment arrangements, or exit strategies with the help of neutral mediators, housing counselors, and if income eligible, free legal assistance. The Program was launched in January, 2009 and through June, 2010 over 9,400 Mediation Sessions have been scheduled, over 5,000 Mediation Sessions have been completed and an additional 500 cases have been resolved by housing counselors prior to mediation. State funding of \$12.5 million has been allocated to the NJJFM program.

MAP is a homeless prevention program for homeowners providing “catch-up” funding of up to \$20,000 per homeowner to bring mortgages current or to refinance or renegotiate the terms of their mortgage. To date, \$2.6 million in State funding has been allocated to MAP. Over 100 households have been assisted through MAP. Additionally, the NJHMFA is a grantee under the federal National Foreclosure Mitigation Program (NFMC). NJHMFA has received \$1.7 million and will apply for additional funding upon the announcement of funding availability. Over 3,000 homeowners have received foreclosure prevention counseling under NFMC.

Through these programs, NJHMFA has developed partnerships with counseling agencies, the Attorney General’s Office, the Department of Banking and Insurance, the Administrative Office of the Courts, New Jersey’s Office of Dispute Settlement, Legal Services, NJ Mortgage Bankers Association, and the Affordable Housing Network. NJHMFA will continue to call upon the expertise of these entities and the expertise of its staff to further New Jersey’s foreclosure prevention efforts.

B. POPULATION SERVED AND ALLOCATION METHODOLOGY

1. Number of households targeted and geographic distribution: The scope of the program is defined by the amount of available funds and the average monthly loan payment amount. It is anticipated that, net of administrative costs, there will be approximately \$97 million of HHF proceeds with which to make mortgage payments. Data derived from the Mortgage Bankers Association and private lenders suggests the average outstanding mortgage in New Jersey is approximately \$250,000. Thus, the average monthly principal

and interest payment at 6% is \$1,500, and the average monthly payment for taxes and insurance payment is about \$500. The combined PITI payment is therefore approximately \$2,000. NJHMFA will require some contribution from homeowners who can afford to make a partial payment. NJHMFA estimates that that individual contribution on average will be approximately 20% of the mortgage amount. This is an estimate that will obviously be tested in the six-month pilot period of the program. But, assuming a 20% (\$400) average household contribution, the NJHK average monthly funded amount will be \$1,600 per loan. Assuming the household requires the full 24 months of assistance at \$1,600 per month, the average loan amount will be \$38,400. Using these assumptions, NJHMFA estimates it will provide assistance to approximately 2,500 households.

New Jersey is a geographically small state. Although, conditions vary within the state's 21 counties, all counties are suffering unusually high foreclosures and unemployment. Based on various outside reliable data sources, homeowners in the northern counties in New Jersey have the highest average mortgage amounts but may reside in counties with lower unemployment rates. In an attempt to capture as many homeowners as possible, NJHK will limit the program assistance to households with combined mortgage amounts up to the highest cost metropolitan statistical area mortgage revenue bond cap of \$429,619, for a one-unit dwelling or \$550,005 for a two-unit dwelling, and is taking a statewide approach with regard to this funding. Therefore, there will be more funding available for the geographic whole without unduly restricting any area's access to the program.

2. Eligibility Criteria: NJHMFA has designed a set of eligibility criteria that will be utilized with program underwriting guidelines to determine the eligibility of the homeowner for the receipt of the NJHK funds. The NJHMFA will not impose maximum household income limits on NJHK applicants. NJHMFA realizes that the household income will already have been affected by the unemployment/underemployment of the applicant, thereby negating the effectiveness of maximum household income limits. However, in order to be eligible for NJHK the NJHMFA will require that the homeowners be in danger of foreclosure due to a temporary loss of employment-related household income occurring through no fault of their own.

Homeowners who are current on mortgage payments but are expected to become delinquent within a 90-day period due to recent or impending loss of employment income, or homeowners who are 30 days or more delinquent on mortgage payments, will be eligible to apply for NJHK. NJHMFA will require all applicants to sign a notarized affidavit detailing the hardship they have experienced due to loss of employment or underemployment. In addition to the hardship affidavit, the applicant will also need to provide supporting documentation of their hardship. The documentation will be reflective of the applicant's personal situation, i.e. whether they are unemployed or underemployed. This documentation may include evidence from the state unemployment office, a notarized letter from the former employer indicating the job loss was not the fault of the borrower, and/or submission of prior and current pay stubs verifying their status as "underemployed".

NJHMFA will require the applicants to demonstrate a consistent history of making their mortgage payments in a timely fashion prior to the documented employment hardship. This will allow the NJHMFA to assist homeowners who truly have the potential of resuming normal mortgage payments once they are re-employed. Homeowners will also be required to demonstrate that they have exhausted certain financial resources at the time of application. NJHMFA will not include recognized retirement plan savings or educational savings plans in the resources to be exhausted by the homeowner. NJHMFA will also allow and encourage homeowners to maintain an asset reserve of six months of mortgage payments in order to allow a safety net for the future. Homeowners owning other real estate (including a timeshare) at the time of the application will be considered ineligible for NJHK.

Eligible applicants must also show that they are paying, as a result of a reduction/loss of income, more than 31% of gross household income each month to cover all existing mortgage payments (including principal and interest, property taxes, homeowners insurance, mortgage insurance and, if applicable, homeowner association fees). This housing ratio is consistent with the ratio used in all existing Federal foreclosure prevention programs. Households with a housing ratio under 31% will be considered ineligible for NJHK.

Eligible homeowners must have no more than a combined total of \$429,619 for a one-unit dwelling or \$550,005 for a two-unit dwelling in outstanding principal balance due on all existing mortgage loan(s) on the home at the time of the application. This amount was determined by utilizing the mortgage revenue bond purchase price limits under the federal mortgage revenue bond program. This combined limit will allow NJHMA to assist more families in the higher cost areas of the state. This amount is well below the current GSE conforming limit of \$729,750. In addition, NJHMFA will require the homeowners have a maximum combined loan-to-value ratio of 125% for all mortgages on the home, including the proposed NJHK mortgage. Eligible properties include one or two dwelling housing units and must be an attached or detached house or condominium unit or a manufactured home that is on a foundation permanently affixed to real estate owned by the homeowner. Homeowners owning other real estate, including a timeshare, are ineligible. The NJHMFA will require mandatory participation and cooperation by the homeowner in sessions with an NJHK approved housing counseling agency. These sessions will help provide advice on all available programs and solutions for the homeowner, including NJHK to ensure the highest rate of success for the homeowner while dealing with their loss of employment and/or underemployment.

C. DEMONSTRATION OF CAPACITY TO IMPLEMENT

1. Organizational Capacity to Implement: The NJHMFA was created in 1983 to provide housing and funding opportunities for renters and home buyers in New Jersey. Program funding is derived from taxable and tax-exempt bond financing, allocation of Low Income Housing Tax Credits, pension funds, and many other sources. NJHMFA has financed over 50,000 affordable rental units, allocated over \$261 million in federal low income housing tax credits resulting in 36,000 rental units and provided 70,000 homeownership units through the State. Currently, the HMFA has 17,000 loans in its

homeownership portfolio, with a principal loan balance of over \$2 billion. With regard to its homeownership programs, NJHMFA purchases loans from its network of participating mortgage lenders and self-originate some homeownership loans, and originates and services all its multi-family mortgage loans. The Single Family Programs Division of the NJHMFA has a full underwriting, purchasing and master-servicing capacity. Every bond program loan purchased is underwritten by a staff consisting of a supervisor and four underwriters. Loans are reviewed for purchase by a staff of four. Servicing of all loans is retained by the NJHMFA and sub-servicers under contract to the NJHMFA are managed by a servicing staff of six. The highly successful operation of these programs for 25 years speaks to NJHMFA's capacity to provide the necessary compliance and systems infrastructure and funding and implementation mechanisms to successfully implement the NJHK program.

2. Compliance Infrastructure: The NJHMFA maintains a full time Audit Director and staff of CPAs who report directly to the NJHMFA Executive Director. In addition, the NJHMFA is audited annually by outside auditing firms. The Single Family Programs Division, reports monthly to the NJHMFA's Board on loan portfolio delinquencies and reports quarterly to the NJHMFA Audit Review Committee. Certain levels of delinquency trigger an automatic audit of servicing by the NJHMFA's Audit Division. The Audit Review Committee examines delinquencies and defaults in all programs and reviews the reports and findings of the Audit Division and the follow up by the appropriate staff to ensure that corrective measures have been put in place and successfully completed. All funds are maintained in audited accounts with assigned NJHMFA Trust Officers under the supervision of the NJHMFA's Director of Finance. Protocols have been established for the handling of funds.

3. Audit and Internal Controls and Fraud Risk Mitigation: The NJHMFA 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 NJHMFA 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. An audit is performed after each fiscal year (December 31) by the NJHMFA's independent auditor. For the fiscal year that ended December 31, 2009, NJHMFA 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 management are discussed in greater detail in Section F.)

4. Implement Similar Program: NJHMFA's successful implementation of federal and state programs for more than 25 years and the partnership network that NJHMFA has built to assist New Jersey's struggling homeowners demonstrates our capacity to implement the program. This includes NJHMFA's ability to comply, internally and externally control, ensure proper reporting protocols, ensure system infrastructure and develop necessary funding and implementation mechanisms. In addition to having a skilled and experienced staff, the NJHMFA has since 2008 successfully operated a program similar to the NJHK called the Mortgage Assistance Program (MAP). MAP, while not specifically targeted to unemployed or underemployed, provides, through a network of counseling agencies, up to \$20,000 to homeowners in imminent danger of

foreclosure. The funds can be used to “catch up” on arrears or to make mortgage payments that cover the period of time necessary for the homeowner to resume making loan payments. Each file is originated and processed by the NJHMFA’s mortgage origination staff, and underwritten by the regular program underwriting staff. The NJHMFA has gained much experience in handling the process of working with counseling agencies, taking loan applications, processing, underwriting and closing these loans.

In addition to the MAP program, NJHMFA has implemented a series of foreclosure prevention efforts since 2008 to assist homeowners facing foreclosure, many because of unemployment and/or underemployment in the State of New Jersey. In implementing these initiatives, NJHMFA has worked closely with a statewide network of foreclosure prevention partners and anticipates the continuation of this network to administer our proposed NJHK program. This network also helped facilitate the successful administration of the National Foreclosure Mitigation Counseling Grant Program (NFMC). NJHMFA received 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 agencies. The Program requires careful client tracking which is monitored and coordinated through an online information system shared by the counseling agencies and NJHMFA. NJHMFA has taken a co-leadership role with regard to the State’s New Jersey Judiciary Foreclosure Mediation Program. NJJFM assists homeowners in foreclosure with access to housing counselors, attorneys, and neutral mediators. In 2008, the NJHMFA partnered with the national non-profit group, *NeighborWorks America*, to train housing counselors in foreclosure prevention and to provide in-depth foreclosure and credit counseling to homeowners who were too delinquent in their mortgage payments to qualify for a refinancing product. Through this initiative, participating counseling agencies received capacity building funding which is used to hire additional staff, conduct outreach and to fund other needs related to foreclosure counseling. Over 50 housing counselors across the state were trained in foreclosure prevention and asset preservation. NJHMFA allocated \$2 million from the general funds to fund our portion of the initiative.

Additionally, the State government, with NJHMFA and the Department of Banking and Insurance taking the lead, has participated in over 200 foreclosure-prevention events, serving more than 15,500 homeowners. A status report including metrics regarding efficacy is attached as **Exhibit D**.

5. Reporting Protocols

The NJHMFA has a fully automated loan level and financial data management tracking and reporting system. Scheduled and special reports on all aspects of NJHK can be prepared and distributed electronically on the NJHMFA’s integrated financial platform. NJHMFA’s Finance, Homeownership and IT staff are capable and practiced in inputting and analyzing data. More detailed information about reporting is set forth in Sections III and IV that follows.

6. Key Staff:

Anthony L. Marchetta, Executive Director

Mr. Marchetta was recently appointed as the Executive Director of The New Jersey Housing and Mortgage Finance Agency. Mr. Marchetta has over 35 years of experience in the public and private sector. Most recently, he was Vice President of LCOR Inc., where he managed multifamily and mixed use projects within the Mid-Atlantic region. Mr. Marchetta has also worked as a developer, managing teams of attorneys, engineers, architects, environmentalists, and planners for residential and commercial developments. He has 13 years of public sector service, including 10 years serving as Executive Director of the Middlesex County Department of Housing and Community Development. He is a graduate of Rutgers College, and also holds a Master of City and Regional Planning and a Master of Business Administration from Rutgers University.

Tracee Battis, Chief of Programs

Ms. Battis was appointed to her position in July 2002. Prior to that, Ms. Battis served as an Assistant Executive Director from April of 1993. Ms. Battis joined the NJHMFA in 1976 and has served in several capacities, including Policy Analyst and Policy Analyst II in the NJHMFA's previous Policy Development Division, Manager of Internal Operations and Director of Internal Operations & Regulatory Affairs. Tracee received her Master's degree in Business Administration, with a major emphasis in finance, from Rider College and a Bachelor of Science degree, with a major emphasis in management, from Trenton State College.

Leslie Lefkowitz, Chief of Legal and Regulatory Affairs

Mr. Lefkowitz was appointed Chief of Regulatory Affairs in August of 2005. Mr. Lefkowitz previously served as a Deputy Attorney General from 2002-2005. While in the Attorney General's office, he represented the Divisions of Housing and Community Resources in the Department of Community Affairs. Mr. Lefkowitz was previously engaged in the private practice of law. While in private practice, Mr. Lefkowitz served as a municipal, planning board and zoning board of adjustment attorney. He has a B.A. degree from Rutgers College and a J.D. degree from Rutgers School of Law (Camden).

Jerry Keelen, Director of Single Family Division

Mr. Keelen has been on the staff of the NJHMFA since 1986 and has served as Director of the Single Family Division since March, 1997. His responsibilities include directing and developing the NJHMFA's single family loan products. Before coming to NJHMFA, he was associate counsel to the Newark Housing and Redevelopment Authority and counsel for six years at a non-profit legal services office specializing in housing law. He is licensed to practice law in New Jersey and holds an undergraduate degree from Rutgers University and post-graduate degrees from Indiana University and the University of Detroit.

Claudia Lovas, Director of Program Development, Outreach and Foreclosure Prevention

Ms. Lovas joined the NJHMFA in 1986 and has served in several capacities including Director of Strategic Planning, Single Family Loan Underwriter, Special Program Officer, Single Family Program Coordinator, Internal Operations Coordinator, Financial

Management Coordinator and Senior Bond Analyst. Ms. Lovas was appointed to her current position in January 2001. Claudia Lovas received her Bachelor of Science degree in Business Administration from Trenton State College.

Theresa Fink, Director of Finance

Ms. Fink was appointed to this position in December 2007. Mrs. Fink joined the NJHMFA in August 1988. She has spent her entire HMFA career in the Finance Division serving as Trust Accountant I and II, Manager of Trust Accounting, and Assistant Director of Finance. Prior to joining the NJHMFA, she held auditing positions in the Banking industry and Accounting positions in the publishing industry. She holds a Bachelor of Science degree in Accounting from St. Joseph's University.

Laura Shea , Director of Housing Affordability Service

Ms. Shea oversees the Housing Affordability Service (HAS), which is responsible for the administration and monitoring of over 6,000 affordable homeownership and rental units throughout the State. Ms. Shea obtained a BA in English from Villanova University and received her law degree from Widener University School of Law. Prior to this position, Laura served as a Deputy Attorney General at the Department of Law & Public Safety, Office of the Attorney General, and was assigned as counsel to the NJHMFA.

George Guirguis, Director of the Audit Division

Prior to joining NJHMFA, Mr. Guirguis worked at the Department of Community Affairs in 1991. Before joining State Government, Mr. Guirguis held various international senior executive positions in Sperry Rand Corporation, Ingersoll Rand Corporation and a senior auditor position with Price Waterhouse/Newark & Company, London, England. He received a Bachelor of Science degree from Alexandria University with a major in Accounting. Mr. Guirguis successfully completed courses at Rutgers University toward Certified Public Management (CPM) and Certified Municipal Finance Officer (CMFO), and he is a chartered Accountant in London, England.

Darryl Applegate, Director of Regulatory Affairs

Mr. Applegate has been employed by the NJHMFA as Director of Regulatory Affairs since October 2005. Mr. Applegate represented the NJHMFA as a Deputy Attorney General from 1993-2005. From 1989 until being hired as a Deputy Attorney General, he was employed by the NJHMFA as a Policy Analyst and a Regulatory Affairs Coordinator. Darryl has a Bachelor of Arts degree, with a major in political science, from the University of Delaware, and a J.D. degree from Rutgers School of Law (Camden).

Grace Roselli, Director of Information Technology

Prior to joining NJHMFA, Ms. Roselli was a senior associate at Merrill Lynch Corporate Audit, providing IT audit and advisory services on strategic financial systems. Earlier, she was a manager at Deloitte & Touche, where she led IT and administrative consulting projects, and later managed the firm's Philadelphia office IT audit group. She began her IT career at the NJ Department of Human Services, in positions including Management Information Systems Coordinator. Ms. Roselli earned an MBA from The Rutgers University Graduate School of Management in finance and information systems, and an

AB from The College of William & Mary. She holds the CGEIT (Certified in the Governance of Enterprise IT) certification from the IT Governance Institute.

Dana Irlbacher, Assistant Director of Single Family Programs

Ms. Irlbacher began her career with the NJHMFA in 1996 and has served in several capacities including Senior Policy Advisor and Manager of Community Planning. She is responsible for overseeing the homeownership construction programs and the homeownership loan originations. Ms. Irlbacher earned a Bachelor of Arts Degree in Communications from the University of Massachusetts.

Renee Miller, Loan Origination Supervisor

Ms. Miller joined the NJHMFA in 1986 and has served in several capacities including Senior R.E.O. Officer, Servicing Officer II and Closing specialist and bankruptcy foreclosure specialist. She has served in her current role since 2006. Ms. Miller is responsible for the NJHMFA's mortgage origination programs. Renee holds an Associate of Science in Computer Science.

Michael Shelton, Administrator of Servicing

Michael has held his current position since 2003. Mr. Shelton is current responsible for supervising the master servicing staff. He has over 20 years experience as a manager of servicing for a large lender.

Ralph Ingerto PMP,- IT Project Leader.

Prior to joining NJHMFA, Mr. Ingerto served as the Vice President of Information Technology for South Jersey Federal Credit Union. Earlier, Mr. Ingerto was a technical analyst for Atlantic Credit Union, providing business and systems analysis and project management services. He is the project lead in implementing, maintaining, and providing user support and training for NJHMFA's enterprise-wide Integrated Financial and Housing System. Mr. Ingerto earned a Bachelor of Science in Computer Information Systems from Saint Leo University.

Charlene Conover, Supervisor of Single Family Underwriting

Ms. Conover joined the NJHMFA in 1984 and currently serves as the Supervisor of Single Family Underwriting

D. STAFFING AND BUSINESS PARTNERS

1. Program Staffing

The plan is for contract employees to actively undertake a significant portion of the workload (2,500 loans). However, NJHK could potentially serve up to 4,000 homeowners, depending on the actual amount and term of the assistance. NJHMFA's existing staff will handle the additional loans with their applicable salaries being charged back to the NJHK Program. NJHMFA assumed a total cost of \$1,160 per loan. Therefore, \$2,900,000 of the projected salary budget will be allocated to contract employees and \$1,740,000 to NJHMFA's existing staff.

Title	Job Description	Number of staff and time commitment N (new-contracted) E (existing-permanent)
Executive Director	HMFA Executive	(1) General executive level management & marketing -minimal E
Chief of Programs	Executive over HMFA production programs high level oversight	(1) Specific executive level management of the program – weekly or daily input as needed E
Chief Financial Officer	Executive over HMFA high level financial oversight	(1) General executive level financial management of the program– occasional E
Chief of Legal Affairs	Executive over HMFA high level legal oversight	(1) General executive legal liaison – occasional E
Director of Single Family Programs	Program level manager for homeownership programs	(1) Specific program level management of the program – weekly or daily as needed E
Assistant Director of Single Family Programs	Program level manager for the program. Supervises Coordinator of NJHK	(1) Specific program level management of the program – daily part-time E
Coordinator of NJHK Loan Origination	Program coordinator for loan originations and program liaison with outside counselors	(1) NJHK Coordinator – daily fulltime four years N – will coordinate communication, training and program work flow with the outside counselors and work with existing Supervisors of Loan Origination, Consumer Lender Coordination, Underwriting and Purchasing to coordinate existing staff resources and contract staff. It is anticipated that existing staff will perform a portion of the registration, underwriting, processing and closing services as time permits and that contract hires will perform the balance of the job services. The NJHK Loan Origination Coordinator will supervise the contract staff and will work with the regular supervisors to balance the workload. The Coordinator will also be responsible for counselor recruitment, training and on-going liaison services.
NJHK Application Registration and Processing staff	Application Intake and file set up/completion of files for underwriting review	(2) for two years (1) for year three N. Will assist with application submissions including QC and work closely with counselors and HMFA IT and underwriters for follow up. Regular Processing Staff will handle the overflow.
NJHK Underwriting Staff	Underwrite NJHK loan files for program compliance and commitment	(2.5) for two years N. Will handle NJHK apps. Regular Underwriting staff will handle the overflow.

NJHK Closing Staff	Prepares closing docs and coordinates loan closings	(3) for two years and (1) for years thereafter N.
NJHK Call Center Staff	Respond to calls/communications from the public. Supervised by the Consumer Lender Coordinator	(2) for year (1) one for year two N. Will supplement the regular consumer information call staff.
NJHK loan servicing	Sets up and services loans under the supervision of the Manager of Servicing	(1) for ten years N. Regular Servicing staff will handle the overflow.
Auditor	Quality Control of files	(1) for three years N
IT program staff	IT services	(1) for two years N
Marketing coordinator	Marketing and information dissemination. May be an outside vendor	(1) for one year N
Reporting	Provide program data as required	(.5) for years one through four N

2. Business Partners

The main business partners will be the HUD certified counseling agencies and possibly some state licensed non-profit debt adjustors. The counselors will meet with the homeowners and collect the data necessary for the homeowner to submit a complete NJHK application to the HMFA. Other important business partners will provide audit oversight, marketing expertise and software as necessary.

Contractor	Function	Time
Counseling Agencies/Debt adjustors	Thoroughly understand the NJHK program and meet with homeowners and gather application materials	At least 22 HUD Certified Counseling or NJ Dept of Banking debt adjustment agencies 3 counselors each fulltime year one 2 counselors years two through three
Marketing firm	Provide public relations message for the NJHK program	One year
External Auditor	Audit the program	Two years – may be part of an annual audit of HMFA provide for other purposes.
Office supply vendor	Provide office equipment and supplies	Initial fit out of the office
Mitas	IT systems program provider	As needed
Leasor	Provide office space	Three years minimum

3. Organizational Chart: Attached is **Exhibit E**, the New Jersey Homekeeper's Organizational Chart. The Chart includes all the functions needed to adequately implement the Treasury's HHF Program including Program Administrators, Underwriters, Processors,

Servicers, Accountants, Auditors (internal and external), Attorneys, as well as Senior Management Staff reporting to the NJHMFA Board of Directors. NJHMFA is confident that this group of professional and skilled staff will successfully implement and monitor this program. The senior management staff reports to a Board of Directors, which include the Commissioner of the Department of Community Affairs as Chairperson, the Department of Banking and Insurance, the State Treasury, as well as the Attorney General or their designees. Banking, Treasury and the Attorney General's office, as board members reflect on the State's commitment to ensure the success of NJHMFA's programs and the protection of the millions of Federal and state dollars that pass through each year.

4. How Eligible Entity will be Managed: HMFA is an Eligible Entity for the purposes of the hardest hit initiative. As such, NJHK will be staffed by existing, experienced staff in collaboration with outside contractors and external partners.

5. Key Partners: HMFA currently administers three foreclosure programs. These programs have provided an opportunity for HMFA to collaborate with a variety of other housing and finance groups throughout the state to form a network of services for New Jersey residents. Many of these same groups will be key partners with HMFA in administering the NJHK as well. NJHMFA intends to RFQ for housing counseling services and it is anticipated that the housing counselors currently involved with existing HMFA foreclosure programs will be participating in the NJHK program. NJHMFA also anticipates issuing an RFP for a portal web-based system for intake and tracking mechanisms. Contracts will need to be entered into covering housing counseling services, the web-based portal system, marketing services and any amendments necessary for NJHMFA's external auditor to audit this program.

E. ADMINISTRATIVE EXPENSES

The Detailed Expenditures Timeline is included as **Exhibit F**. Administrative expenses are detailed in **Exhibit G**. NJHMFA expects to launch the NJHK program in January of 2011. Therefore, it is anticipated that the largest administrative expenditures will be in 2011 when the Program is in full operation. The estimated 2,500 loans will be in the first three years and may extend beyond based on any mortgage repayments which may be recycled back into the program. As a result, the administrative expenses will start declining in the later years. NJHMFA will continue to provide the necessary monitoring and will incur these administrative expenses through the year 2020.

F. OVERVIEW OF RISK MANAGEMENT, FRAUD PREVENTION, COMPLIANCE AND MONITORING

1. Plan for Minimizing Program and Fraud Risk: The NJHMFA maintains an accounting procedure manual for its major processes, which includes cash management, receivables, servicing, accounts payable, operations, and grants management. NJHMFA staff reviews 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. The NJHMFA has in place a multiple-disciplined Foreclosure Mitigation Team whose sole purpose is to create and implement all state and federal funding programs to assist families in New Jersey who are in or near foreclosure. This team includes the business group that manages all the foreclosure

programs which are housed in Executive and reports directly to the Executive Director, as well as staff from Single Family Programs, Finance, Legal and Information Technology. The Foreclosure Team will be responsible for operating the Hardest Hit Funding Program, and their duties will include: analyzing the requirements of the grant, ensuring mechanisms are in place throughout the NJHMFA to meet all federal requirements, developing policies and procedures and all protocols under the grant guidelines

The NJHMFA has had in place for over ten years an Internal Audit Review Committee. This committee consists of the Executive Director, Chief Financial Officer, and the Chiefs of Programs, Regulatory Affairs, Program Services and the Director of Audit. The purpose of this Audit Review Committee is to review all programs to ensure their efficiency and effectiveness and compliance with all state and federal requirements. As such, the Foreclosure Mitigation Team will be required to report to the Audit Review Committee on no less than a quarterly basis, the status of the Hardest Hit Funding Program. This will include, but not be limited to, how the funding is flowing, how the process is working, are there any issues that need to be addressed, are there any modifications needed to the internal control system to ensure that all protocols to comply with all requirements under the Hardest Hit Fund are being met.

The Finance Division, along with the individual program administrators (for the Hardest Hit Fund – this will be the Foreclosure Mitigation Team) are responsible for monitoring that the grant agreements are in compliance with OMB Circular A-133, federal, and state regulations. The Finance Division monitors the cash receipts, disbursements, and reconciles accounts monthly. Subrecipients' financial statements are audited and submitted to NJHMFA for review. The NJHMFA maintains files defining each program and its specific compliance requirements under the federal or state guidelines. Each specific program administrator has written procedures which are designed to ensure proper internal controls are followed to mitigate risk and ensure the adherence to all federal, state and OMB A-133 requirements.

An audit is performed after each fiscal year (December 31) by the NJHMFA's independent audit firm. This audit encompasses a financial and compliance examination of the NJHMFA's financial statements, supplementary information and compliance reports in accordance with the laws and/or regulations of the State of New Jersey, which include requirements for the minimum scope of the audit. The financial and compliance audit covers federal, state, and bond 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; and applicable laws and regulations.

The NJHMFA uses the direct method of cost allocation for federal cost based awards. Salaries are tracked via our Human Resources Management System (Oracle database) which also records employees' time. The Payroll and Benefits unit of the Finance Division prepares monthly statements of the cost of salaries and benefits for each employee involved in the federal grant activity. The employees track the amount of time spent on such and the cost is then reported. These calculations and charges are tested by the NJHMFA's external auditors as part of the A-133 audit. They test that all direct charges are in compliance with the

guidance provided by OMB Circular A-87. The NJHMFA plans to use the direct cost allocation to substantiate the costs for the Hardest Hit Fund.

During the fiscal year 2009, the NJHMFA administered federal programs for the Department of Housing and Urban Development, including the following Section 8 programs: Moderate Rehabilitation, New Construction and Substantial Rehabilitation, Contract Administration, and the Community Investment Program. Additionally, NJHMFA administered the Section 236 Program, Shelter Plus Care, the Homeless Management Information Systems and the ARRA – Tax Credit Assistance Program. NJHMFA also administers the Department of the Treasury NeighborWorks America National Foreclosure Mitigation Counseling program for a total dollar amount of \$414,734,580. During the fiscal year 2010, the NJHMFA was awarded additional federal funding through the following programs: Section 1602 Grants for Low Income Housing and the Tax Credit Assistance Programs and NFMC for a total of \$185,316,371.

The NJHMFA's accounting software system is the Mitas system. It is an enterprise wide integrated financial system. The account number structure is four sub level account number, which allows for versatile reporting providing various levels of detailed reporting. The loan servicing module also tracks the fund-program-project-unit by source of funds, allocations, commitments, and disbursements of funds. The fund master screen operates like a budget system, comparing allocated to awarded to actual, which prevents disbursements in excess of an award. These systems are integrated, which allows the NJHMFA flexibility in the tracking and reporting of grants to meet the needs of federal agencies, the New Jersey State Treasury Office, Independent Auditors, Subrecipients and Vendors. NJHMFA would use this system to provide detail or summary information to Treasury on the Hardest Hit Funds.

NJHMFA maintains all its accounting Records at its office located at 637 South Clinton Avenue, Trenton, New Jersey 08619. It maintains its cash receipts journal, cash disbursements journal, general ledger, and accounts receivable ledger on a local area network. NJHMFA maintains its network infrastructure in-house utilizing its own network environment, along with its own network security policy. Daily back-up data tapes are secured off-site in a climate-controlled, high secured vault. Back-up is done on a nightly basis, and tapes are sent offsite three times a week for business continuity.

The NJHMFA's annual audited Financial Statements and Schedule of Federal Awards are on its website www.nj-hmfa.com Financial records are maintained onsite at the NJHMFA for three years. Records older than three years are maintained offsite in a secured environment.

The NJHMFA has a tradition of manually underwriting (or re-underwriting in the case of purchased loans under the bond program) all loan applications. Therefore, each file must be fully documented with original or otherwise acceptable documents. Loans are purchased only after a full file review by the HMFA's Purchasing staff. HHF funding will be subject to same level of scrutiny. Each filed NJHK application will contain all required documentation or it will not be underwritten. The counseling agencies will receive written guidelines and be extensively trained. Once loans are made, the NJHMFA's Servicing staff will assure that the recordings are effectuated and loans are serviced and discharged only upon receipt of required proofs of arm's length sale. The NJHMFA has successfully operated several

dischargeable second mortgage programs accounting for over 6,000 loans. The NJHMFA Audit Division performs a Quality Control compliance review of 10% of all loan files for compliance with underwriting and documentation requirements. Quality Control compliance will be modeled on the current standards for quality control applicable to regular loan underwriting.

The NJHMFA employs a fully integrated financial platform that provides web-based registration of loans and controls and reconciles all transaction amounts from opening to closing of a file.

The NJHMFA will institute safeguards to minimize the possibility of fraudulent applications for the NJHK program. Each application will be reviewed continually throughout the process to verify income and employment information. Any applicant that fails to supply satisfactory evidence of income or employment status will be deemed ineligible to receive a NJHK loan. Once approved for a NJHK loan, homeowners will be required to submit notarized affidavits regarding their status on a periodic basis throughout the process. These affidavits will require the applicants to attest to the fact that they are in compliance with all terms and conditions of the NJHK program. Additionally, NJHMFA anticipates contracting with an outside service to verify employment and income data, and will also enter into a Memorandum of Understanding with the New Jersey Department of Labor to allow NJHMFA access to their online system regarding employment and income. NJHMFA will refer any application suspected of containing fraudulent information to the Office of the Attorney General for review. The NJHMFA has statutory authority to institute suspension or debarment proceedings of any applicant. NJHMFA will also take immediate action, including termination, relative to any employee or outside contractor suspected of providing fraudulent information on behalf of any applicant.

III. REPORTING

1. Operation and Performance Metrics: The NJHMFA programs and finances are maintained on an integrated financial platform provided by the Mitas system. Financial accounting, loan registration, loan purchase, loan servicing, bond debt service, purchase and inventory are all run on the same platform. Allocations are made for each program within the Mitas system which enables the NJHMFA to track and report at the program and loan levels. The Mitas system will be configured to meet Treasury's requirements for the NJHK program, but currently tracks such data as borrower information, property information, loan status, loan level detail and summary program data. Data fields are expandable to accommodate the need for such metrics and evaluation as may be required by Treasury, auditors and others interested in gauging the effectiveness of the program. The Mitas system is backed up daily and is secured. NJHMFA has an IT Division and the Single Family Programs area has a full-time staff person dedicated to tracking, reporting and other IT matters.

NJHMFA is confident that it can provide metrics as required by Treasury, but will be at a minimum able to provide: expected and actual program funding, homeowner characteristics, time and amount of loan proceeds, successful outcome and foreclosures averted.

IV. COMPLIANCE AND MONITORING

1. Compliance with EESA: The Hardest Hit Fund is subject to the requirements of the Emergency Economic Stabilization Act of 2008, including, but not limited to, allowing full compliance and oversight by the U.S. 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. NJHMFA will develop procedures that ensure compliance with EESA and include appropriate internal controls. All books and records will be made available to the parties listed above.

2. Monitoring Mechanism: See Section F - Overview of Risk Management, Fraud Prevention, Compliance and Monitoring

V. ADMINISTRATIVE EXPENSES - (see Exhibit G)