

## Section One

On February 19, 2010, President Obama announced \$1.5 billion in funding to help families in the five states that have been hit the hardest by the combination of housing price declines and unemployment. Florida Housing Finance Corporation (“Florida Housing”) appreciates the confidence that the Treasury has shown in State Housing Finance Agencies by directing \$418 million in Hardest Hit Fund funding to Florida for use in addressing the mortgage foreclosure crisis that Florida is facing. We held a public workshop on this initiative and had numerous meetings with counseling agencies, local governments, housing advocates, attorneys and others to ask questions and gain valuable insight into the complexity of the mortgage foreclosure problems here in Florida. We submitted our original proposal to Treasury on April 16, 2010. In the original proposal, we advocated for three strategies that we believed worked in tandem to address some of the needs in Florida. Unfortunately, both the Legal Representation and Downpayment Assistance strategies were deemed not in compliance with EESA by Treasury’s counsel. Therefore, upon Treasury’s request, we are submitting this revised proposal that deletes the two disallowed strategies and revises the Mortgage Intervention strategy to incorporate changes discussed with Treasury. As an alternative to the disallowed strategies, Florida Housing intends to submit a proposed term sheet to implement an innovative strategy related to short sales at a date in the near future.

In our strategy, the Mortgage Intervention Strategy, Florida Housing proposes to help unemployed or underemployed homeowners achieve the goal of sustainable homeownership by partnering with banks and credit unions as well as mortgage investors, such as Fannie Mae and Freddie Mac, to extend the time period for homeowners to become re-employed at a salary that is sufficient to either resume making full mortgage payments or qualify for a mortgage modification that will lower the payments and terms of the mortgage to an affordable level. Florida Housing will use these funds to pay up to nine months of mortgage payments on behalf of a homeowner in return for the lender or investor forgiving up to nine months of payments.

Florida Housing recognizes that not every homeowner facing difficulties making their mortgage payments will qualify for this strategy. That is why we propose partnering with local housing counseling agencies to meet with interested homeowners and provide for intake and application processing. These counselors will be able to look at individual homeowners’ circumstances and determine the best course of action. Some other possible outcomes for these homeowners could be a loan modification without the unemployment assistance, a short sale, deed-in-lieu of foreclosure or a referral to an attorney who could assist with issues relating to mortgage fraud or predatory lending. Each homeowner would be offered assistance with whatever circumstances they are facing provided that funds received from Treasury through the Hardest Hit Fund will only be used to support counseling relating to HAMP, the Mortgage Innovation Strategy, another making Home Affordable Initiative or another TARP funded modification program.

### *Overview of Florida’s Economic and Housing Status*

The impacts of the national economic crisis have hit Florida hard. Across all measures of concern, including housing price decline, unemployment and foreclosures, Florida ranks consistently in the top few states in the country. Housing prices soared in the mid-2000s,

sparked by residents and investors buying homes and developers building new units and converting thousands of rental units into condos. In 2004 alone, 47 percent of all apartment sales were for conversions in Broward County, 43 percent in Palm Beach County and 82 percent in Miami-Dade County.

While state median prices for existing single family housing peaked in August 2006, Florida Realtor Association data show that prices had begun to tumble in some markets earlier that year, and home sales were off as early as late 2005. Prices have fallen from a statewide median high of \$248,400 in August 2006 to \$141,800 in February 2010 – a 57 percent drop – and housing prices are continuing to decrease.

According to RealtyTrac.com, over 54,000 properties received a foreclosure filing during February 2010. This was an increase from January 2010 and a more than 16 percent increase from one year ago.

The economic slowdown has also impacted jobs. The U.S. Bureau of Economic Analysis estimates that Florida's personal income fell in 2009 by 2.7 percent, mainly due to manufacturing and construction losses. In February 2010, the state unemployment rate hit a new seasonally adjusted high of 12.2 percent, with over 1.1 million workers seeking jobs. This does not count the estimated 8 percent of "discouraged" workers – those people who have dropped out of the job market or who are underemployed. It is now believed that many new loan delinquencies and foreclosures are the result of job loss.

## **Section Two**

### **A: Overview of Program - Mortgage Intervention Strategy**

Florida Housing is proposing a strategy focused on a sustainable solution to keep homeowners in their current homes by helping those who are struggling to make their current mortgage payments because of hardships sustained since purchasing the home. These circumstances may include: unemployment, reduction of income, underemployment, death or disability in family, unforeseen medical bills, unforeseen costly home repairs, and divorce. Many homeowners are struggling to keep current on their mortgage payments.

Most loss mitigation options on mortgage loans only allow for a limited forbearance, typically four months, when a borrower becomes unemployed. After that point, the loan is sent to foreclosure. In the current economic environment in the hardest hit markets of Florida, four months is not enough time for a borrower to become re-employed at a salary that is sufficient to continue making mortgage payments. Moreover, loss of income is the leading reason why homeowners are unable to qualify for a modification of their mortgage under the federal Home Affordable Modification Program (HAMP).

Florida Housing is currently in negotiations with mortgage investors and lenders to provide matching funds for these homeowners. These matching funds would lengthen the amount of time a homeowner could receive assistance to become re-employed at a salary that is sufficient to either resume making full mortgage payments or qualify for a mortgage modification that will

lower the payments and terms of the mortgage to an affordable level. Florida Housing anticipates using these funds to pay up to nine months of mortgage payments on behalf of a homeowner. This period of time may vary, depending on the willingness of the servicer or mortgage investor to participate in this strategy.

Florida Housing may also assist underemployed homeowners. If the homeowner is in an underemployed situation, where they may have a job but are making less than they were when they bought their house, the home may be at risk of foreclosure. Florida Housing intends to take into consideration their current income compared to their housing debt and possibly supplement the homeowner's own housing payment in an amount that ensures that the homeowner is not being over subsidized.

Florida Housing is not currently considering making upfront arrearage payments on behalf of a homeowner. Typical loss mitigation techniques for arrearages include adding the arrearages back into the loan and reamortizing the loan when eligible for modification. The purpose of this strategy is to give homeowners more time to get back on their feet. Allowing for the payment of arrearages would shorten the amount of time the strategy could help the homeowner. However, if such payment is needed in order to effectuate a successful mortgage modification, it may be allowed.

Our intake of prospective clients will begin at the local level. We will work with local housing counselors and units of local government with housing departments experienced in administering the State Housing Initiatives Partnership (SHIP) program, the federal HOME Investment Partnerships Program and Community Development Block Grant Program, especially in areas where there is a lack of counseling infrastructure, to facilitate the intake process. All 67 Florida counties and 53 cities participate in the SHIP program, which has provided funding to support local housing strategies since 1992.<sup>1</sup> These local governments have housing departments experienced in administering a variety of housing strategies under the SHIP program, including downpayment assistance and foreclosure prevention. Administration of these strategies includes application intake, income qualification and loan closing activities, and most of these local governments work closely with local housing counseling agencies to ensure that those who are being assisted receive necessary support for homeownership.

Housing counselors and units of local government that perform housing counseling services will be used to make the determination whether the prospective client is eligible to receive the Mortgage Intervention Strategy funding. The Mortgage Intervention Strategy detailed here will not be able to help all people, but we believe it is critical that this strategy should offer those who seek help assistance in determining the best course of action for their situations. For some homeowners, the best strategy may be a short sale or a deed-in-lieu of foreclosure. Florida Housing would like to ensure that, when a homeowner seeks assistance through one of the participating agencies, all viable options will be made available to them provided that funds received from Treasury through the Hardest Hit Fund will only be used to support counseling relating to HAMP, the Mortgage Innovation Strategy, another making Home Affordable Initiative or another TARP funded modification program. The Mortgage Intervention Strategy is

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<sup>1</sup> Due to serious budget constraints, the Florida Legislature provided extremely limited funding for this program last year and none this year.

one additional tool that can be offered by counselors to assist homeowners if their situation meets program requirements.

If the local housing counseling agency believes that the homeowner may be eligible for the Mortgage Intervention Strategy, the counselor will be required to assemble the following information which will be used to make eligibility decisions:

- Application;
- Property Deed;
- Real Estate Tax information (if not escrowed);
- Homeowner's Letter of Circumstance;
- Verification of Circumstances (layoff notice, letter from doctor, receipts, etc.);
- Client Information Release Authorization Form;
- Mortgage Verification;
- Employment / Unemployment Verification;
- Deposit/Loan Verification;
- Income Verification (paystubs, checks, income statements);
- Federal Income Tax Returns (last 3 years);
- Monthly Statements of Charge Accounts and Loans;
- Foreclosure Notice (if filed);
- Homeowner's Insurance policy,
- Bankruptcy Information (if applicable);
- Credit Report;
- Other Documentation; and
- Counselor recommendation based on facts provided.

**Before a client may be considered for the Mortgage Intervention Strategy, the homeowner must first be screened for eligibility under HAMP.**

HAMP is designed to help financially struggling homeowners avoid foreclosure by modifying loans to a level that are affordable for borrowers now and sustainable over the long term. The program provides clear and consistent loan modification guidelines that the entire mortgage industry can use.

Borrower eligibility is based on meeting specific criteria including:

- Borrower has a loan that is being serviced by a HAMP participant or the mortgage investor is a HAMP participant.
- Borrower is delinquent on their mortgage or faces imminent risk of default.
- Property is occupied as borrower's primary residence.
- Mortgage was originated on or before January 1, 2009, and unpaid principal balance must be no greater than \$729,750 for one-unit properties.
- The borrower has a mortgage payment that is not affordable due to a financial hardship that can be documented.
- The borrower has a monthly mortgage payment greater than 31 percent of gross monthly income.

If the borrower meets the minimum eligibility criteria:

- Ask the borrower and all co-borrowers about current income, assets and expenses, as well as any specific hardship circumstances to determine if they are unable to make the mortgage payment. (Servicers may initially accept verbal income and expense information. However, borrowers will need to provide verifying documentation before a permanent modification is approved.)
- Determine if the borrower's front-end debt-to-income ("DTI") ratio is greater than 31 percent. If so, apply the standard modification waterfall steps to reduce the borrower's monthly mortgage payment to a point that it represents no more than 31 percent of the borrower's gross monthly income.
- Apply a Net Present Value ("NPV") test to determine whether the value of the loan to the investor will be greater if the loan is modified (factoring in the government's incentive payments). If the modified loan is not of greater value, the investor and servicer may still modify the loan. However, modification in such cases is not required. If the modified loan is of greater value, the servicer must offer a HAMP modification to the borrower, and, if the borrower accepts the offer, the servicer will put the borrower on a trial modification (typically three months) at the new payment level.
- If the borrower makes all of the required trial payments during the trial period and the income and expense information provided by the borrower is determined to be accurate, the servicer will execute a permanent modification agreement.

The local housing counseling agencies will make the determination of eligibility of the client. There are certain standard requirements that Florida Housing will require the homeowner to satisfy in order to receive funding from the Mortgage Intervention Strategy. These requirements include that the mortgage being paid by the Mortgage Intervention Strategy funds is for the homeowner's principal residence and the residence is located in Florida. The maximum income level for participation will be 140% of the Area Median Income (AMI). It is anticipated that most or all participants in an unemployment / underemployment situation will at the time of application be below this income level. Florida Housing intends to take this into account by implementing a maximum mortgage amount that will be assisted under this strategy. The maximum mortgage amount will vary depending on location of the home. Table 1 provides the maximum mortgage amount based on the county where the home is located.

Housing counselors will be required to take into account the circumstances that brought the homeowner to their current situation. The local housing counseling agency will be required to document that the homeowner's current situation is due to suffering a hardship. When making this determination, we propose that the local housing counseling agency should consider the following examples as circumstances beyond the homeowner's control which could result in financial hardship:

- Unemployment or underemployment through no fault of the homeowner;
- Loss, reduction or delay in receipt of federal, state or other government benefits (Social Security, Supplemental Security Income, Public Assistance, Government Pensions) or of private benefit payments (pensions, annuities, retirement plans);
- Loss, reduction or delay in receipt of income because of the death or disability of a person who contributed to the household income;

- Expenses actually incurred related to uninsured damage or costly repairs to the mortgaged premises affecting its habitability;
- Expenses related to death or illness in the homeowner's household or of family members living outside the household which reduce the amount of household income; and
- Loss of income or substantial increase in total housing expenses because of a divorce from a spouse or failure to receive required support.

The following items should be considered as circumstances not beyond the control of the homeowner and may be cause for rejection of the application by the local housing counseling agency:

- Mortgaging of the property for commercial or business purposes;
- Termination of employment by the homeowner without a necessitous cause or termination of the homeowner's employment by an employer for willful misconduct;
- The homeowner had sufficient income to pay the mortgage but failed to do so – in this regard, if the homeowner's total housing expense is less than or equal to 31% of calculated income, and no reasonable cause for financial hardship is demonstrated by the homeowner, then the nonpayment of the mortgage debt will not be considered to be a circumstance beyond the homeowner's control; and
- The homeowner's financial hardship was a result of money mismanagement or an over extension of credit to the homeowner – in this regard, debts incurred or expenditures made by the homeowner for nonnecessities, prior or during the financial hardship, which exceeded the homeowner's ability to pay, will be considered evidence of poor financial management.

Other items the local housing counseling agency should consider when determining program eligibility include:

- Whether the borrower's home is currently underwater, meaning how much is owed on the mortgage(s) compared to the current value of the house;
- If the borrower was to gain better employment, would they be able to qualify for a mortgage modification (if necessary) based on the current value of the home? There will be some circumstances in which the home value is currently too low.
- Did the homeowner earn enough wages at the time of the original mortgage closing to cover the mortgage payments? If not, what is the probability that the homeowner will be able to earn enough to do so in the near future; and
- Was the original mortgage amount within program guidelines?

Once the local housing counseling agency determines eligibility, the agency will either send or upload the required data points to Florida Housing in standardized Excel format. A web-based tracking system will reserve the amount necessary for the payment of up to nine months of mortgage payments from the correct funding pool based on borrower location. Florida Housing may decide to utilize an Escrow Agent for the disbursement of mortgage payments for the borrowers served under this strategy.

The funds used by homeowners under this strategy will be in the form of a zero-percent interest, forgivable loan with a term up to 78 months. Once the homeowner resumes making mortgage payments, which are anticipated to start at or before month 18, the loan will be forgiven 20

percent at the end of each 12 month period. The effect will be up to 18 months of payments made by Florida Housing and the servicer or investor and 20 percent being forgiven at the end of each of the remaining 5 years as long as the borrower remains current on their first mortgage and continues to live in the house as their principal residence. If the homeowner sells the home during any part of the 78 month term, the remaining principal balance will be due to Florida Housing and recycled back into the program. If there is not enough equity in the home to repay the entire amount due, Florida Housing may forgive a portion or all of the remaining principal balance so as to not create additional hardships on the seller at closing.

This loan will be evidenced by a Note and Mortgage. The local housing counseling agency or unit of local government will facilitate the closing of the mortgage and have the proper staff on hand to witness and notarize the closing documents. When the closing package is finalized, the local housing counseling agency or unit of local government will forward the documents to Florida Housing for further processing, including recordation of the Mortgage with the appropriate authorities.

At each mortgage payment, the local housing counseling agency or unit of local government must determine that the homeowner still needs the mortgage intervention funds. The local housing counseling agency or unit of local government must verify that the homeowner is still unemployed or underemployed by checking unemployment records or other appropriate documentation. Also, the local housing counseling agency or unit of local government must verify the steps the homeowner has taken to find a job or earn more income. Once the homeowner has regained substantive employment, funds may be made available for either a principal write-down or a second mortgage lien reduction. Florida Housing intends to provide an average amount (maximum amounts will depend on location of the home as listed in Table 1) of \$25,000 for a principal write-down, a second mortgage lien reduction or a combination of the two.

To receive a principal write down, Florida Housing will only consider the amount necessary to make a modification possible. Florida Housing and the other hardest hit HFAs are currently in negotiations with mortgage investors and lenders to provide matching funds for these homeowners. The average amount, which can vary depending on area the home is located, supplied by Florida Housing will be approximately \$25,000.

If the homeowner has subordinate liens that are impeding a successful first mortgage modification, Florida Housing will consider offering a subordinate lien reduction in an amount which will help facilitate successful modification but not to exceed an average amount, again which may vary due to location, of \$25,000. Florida Housing will only offer these funds if the subordinate lien holder(s) is willing to take the amount supplied by Florida Housing, plus any other funds that can be used to pay down the subordinate liens, to extinguish the debt to allow the first mortgage to be modified. If the subordinate lien holder is unwilling to extinguish the debt, Florida Housing's funds will not be offered.

Both the principal write-down and the subordinate lien reduction payments will be added to the original recorded mortgage under the same terms. Florida Housing will again have the local housing counseling agency or unit of local government facilitate the additional signatures

necessary by having the proper staff on hand to witness and notarize the modification documents of the original recorded mortgage. When the modification package is finalized, the local housing counseling agency or unit of local government will forward the documents to Florida Housing for further processing, including recordation of the modification documents with the appropriate authorities.

While the homeowners are in the first year of the program, they will be required to regularly meet with their housing counselor. After stabilization, Florida Housing will be making annual residency verifications to ensure continued principal residence status and will also be checking with their mortgage company to verify payment history during the previous 12 month period. These additional points of contact will help determine the effectiveness of the program.

## **B. Population Served and Allocation Methodology**

To determine geographic targeting for Hardest-Hit funding, Florida Housing carried out an analysis of data, relying on data similar to that used by Treasury to allocate funding, to determine the hardest hit areas of the state. We evaluated three measures across all 67 Florida counties – Housing Price Decline from peak prices, Unemployment Rate and Seriously Delinquent mortgage loans – and then combined ratios for each to create an allocation methodology that will guide how funding is geographically targeted. Table 2 provides this information, as explained below.

Housing Price Decline is a measure of the change in housing prices over a period of time. Florida's methodology reflects the percentage of price decline from the peak single family housing price, whenever that occurred in each county. Housing prices in Florida peaked as early as the first quarter of 2006 and as late as the second quarter of 2007. The Housing Price Decline ratio developed for each county shows the relationship of each county's decline compared to the largest price decline in any county (in this case, Lee County). The table provides additional notes on the data source and how the data were used for this purpose.

The Unemployment Rate shows the proportion of workers who are without employment over a certain period. Florida's methodology uses the average annual 2009 rate for each county.<sup>2</sup> To get a ratio for each county, we compared the county rate to the average 2009 statewide rate of 10.5% and then multiplied by two (2). The doubling of this ratio increases the weight of unemployment in the methodology, which Florida believes is important in light of the state's proposed strategy to focus on unemployed homeowners. The table provides additional notes on the source of data and how the data were used.

Seriously Delinquent Loans equal all active loans in a county that are 90+ days past due or are in foreclosure.<sup>3</sup> Using January 2010 data, we arrived at the Seriously Delinquent ratio by dividing the proportion of all loans in a county that were seriously delinquent by the proportion of

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<sup>2</sup> Florida evaluated whether to use a more current one-month unemployment rate or the 2009 annualized rate. The annualized rate was chosen because this 12-month rate averages any large losses or gains due to big business closings, seasonal fluctuations and other short term impacts.

<sup>3</sup> This does not include REO properties.



seriously delinquent loans across the state (18%). This ratio is meant to compare the percentage of active loans that were past due, rather than the gross number of overdue loans in a county.

The data cover all seriously delinquent loans, not just those for homesteaded properties. Florida Housing did evaluate loan delinquency data that categorized active loan borrowers into primary homes, second homes, non-owner (investment) homes and unknown borrowers, with the hope of basing our allocation solely on primary home loans that were seriously delinquent. However, disaggregating the loan data provided very low numbers (and sometimes no information) for each borrower category in the smaller counties. Thus, Florida Housing decided that the primary home data alone could not be relied on to be accurate for allocation purposes. Because of concerns that some counties would receive higher allocations mainly due to high counts of delinquent investment properties, we evaluated this information, particularly for the counties that have a higher share of the seriously delinquent problem, as shown in Table 2. The analysis showed that there is minimal impact to the allocation from non-primary home property delinquencies.

Once Florida Housing arrived at ratios for Housing Price Decline, Unemployment Rate and Seriously Delinquent Loans, we added the three ratios together. Then we multiplied the number of seriously delinquent loans in each county by the sum of the three ratios to create a weighted number of loans. Finally, we divided each county's weighted number of loans by the state weighted loan total to get a final weighted percentage for each county.

Once Florida Housing makes final program decisions, we will use this methodology to allocate program funding across all three strategies. Note that funding may not be allocated strictly based on the final weighted percentages in the allocation table, as Florida Housing will evaluate existing local infrastructure and capacity as part of its final decision. In addition, a portion of the funding is likely to be provided in a funding pool as a first come, first served allocation, perhaps for the smaller or rural areas of the state, to ensure that the funding is getting out timely.

#### Estimated Number of Households that the Mortgage Intervention Strategy will Target

The \$ 380 million allocation (excluding administrative expenses) to the Mortgage Intervention Strategy is anticipated to be disbursed over a five year period. Florida Housing anticipates that this strategy will be able to serve approximately 1,500 to 2,500 homeowners a year for a total of 7,500 to 12,500 homeowners over the five year period.

#### Timeline for Deployment of Funds for Mortgage Intervention Strategy

<b>Pre-Award</b>	Request Board approval for the issuance of solicitations for Housing Counseling Agencies and Units of Local Governments as program participants, Compliance Monitoring Servicers and other professionals as necessary.
<b>Start Date</b>	Grant Agreement executed
<b>Month 1</b>	Issue solicitation for Local Housing Counseling Agencies / Units of Local Government Hold public workshop(s)
<b>Month 3</b>	Complete scoring for Local Housing Counseling Agencies / Units of Local Government solicitation Issue solicitation for Compliance Monitoring Servicer

<b>Month 4</b>	Begin Pilot Program
<b>Month 5</b>	Complete scoring for Compliance Monitoring Servicer solicitation
<b>Month 6</b>	Complete Pilot Program
<b>Month 7</b>	Begin to close loans with eligible homeowners
<b>Month 8</b>	Begin quarterly reporting to Treasury on program
<b>Month 12</b>	Begin monitoring of Local Housing Counseling Agencies / Units of Local Government (ongoing through life of program)
<b>Month 24</b>	First borrowers to receive all 18 months of mortgage assistance payments, possibly the start of adding principal write-down / subordinate lien reduction payments (this could occur sooner as employment is gained)
<b>Ongoing</b>	Conduct annual residency verifications

### Implementation Obstacles

There are several implementation obstacles that will extend the time it will take for Florida Housing to deploy the HFA Hardest Hit Funds.

***Florida Administrative Procedure Act:*** Florida Housing is an agency for purposes of the Administrative Procedure Act, Chapter 120, Florida Statutes. Sec. 120.54(1)(a), Florida Statutes, reads “Rulemaking is not a matter of agency discretion. Each agency statement defined as a rule by s. 120.52 shall be adopted by the rulemaking procedure provided by this section as soon as feasible and practicable”. This would appear to require Florida Housing to promulgate rules to allocate or expend the HFA Hardest Hit funds.

This mandatory rulemaking process, from the first required notice of rule development through filing for adoption, takes 60-120 days. Any affected party may challenge a proposed rule; the rulemaking process is halted as a matter of law upon filing of a petition challenging the rule. The rule challenge process adds a minimum of 60 days to the rulemaking process. If the challenge is successful, the process must begin again.

***Competitive Solicitation/Bid Protest Process:*** An alternative to the rulemaking process described above is to employ a Request for Proposal (RFP) or other competitive solicitation process to allocate funds. Florida Housing is seeking a legislative clarification that it has statutory authority to allocate federal funds that have no corresponding program in Florida Statutes by RFP or other competitive solicitation. The Legislature should act on this proposal by April 30, 2010, the end of Florida’s legislative session.

Due to notice requirements, it typically takes 60 days or more to publish and receive responses. Any potential respondent may protest the terms of the RFP within 10 days after publication. Such protests are expedited, but typically add at least another 60 days to the process. Once responses are received, about 30 days after publication, absent a protest, unsuccessful respondents may challenge the selection for awards. As with a protest of the terms, award protests typically add a minimum of 60 days to the process. See sec. 120.57(3), Florida Statutes, regarding the bid protest process.

***SAFE Act Licensing Requirements:*** The Secure and Fair Enforcement for Mortgage Licensing (“SAFE”) Act of 2008 imposed more stringent licensing requirements on loan originators.

Florida Statutes, at sec. 494.00115, exempt *inter alia*, any state, county, or municipal government; or any quasi-governmental agency; and those acting solely under contract and as an agent for federal, state, or municipal agencies for the purpose of servicing mortgage loans. In January, 2010, by letter to Thomas Cardwell, Commissioner of the Florida Office of Financial Regulation, the U.S. Department of Housing and Urban Development advised that to the extent that Florida's exemptions apply to individual employees of otherwise exempt entities, the "exemption may differ from the SAFE Act and HUD's proposed rule when such employees are engaged in the business of loan originator". Florida Housing has operated its first time homebuyer education, consumer credit counseling, and more recently its foreclosure mitigation counseling under the National Foreclosure Mitigation Counseling (NFMC) program through a network of not-for-profit entities around Florida. As provided above, the individual counselors have not heretofore been required to be licensed mortgage brokers or loan originators. The ultimate decision by HUD to require strict adherence to the SAFE Act licensing requirements for those employed by or under contract with Florida Housing who provide mortgage foreclosure counseling services could result in delay while those individuals go through the licensing process, and loss of capacity (and concomitant delay) where individuals choose not become licensed to perform those services.

### Leveraging of Resources

As part of our strategies, Florida Housing plans on leveraging both lender and servicer resources along with state resources when implementing this HFA Hardest Hit Fund Proposal. For the Mortgage Intervention Strategy, Florida Housing intends to work with lenders and servicers to provide matching monthly mortgage payments on behalf of qualified borrowers. Only lenders and servicers willing to make this matching payment will be allowed to work with the program.

## **C: Demonstration of Capacity to Implement**

As the state's housing finance agency, Florida Housing has a long, proven track record of efficiently providing financing to a range of development organizations to provide different types of housing. Florida Housing administers the state's largest federal and state affordable housing programs. We work in partnership with a variety of entities to provide affordable housing to Floridians:

- Providing mortgage financing along with downpayment assistance through participating private lenders;
- Providing funding to homeownership counseling agencies to support their activities;
- Providing training to lenders and Realtors to ensure that homebuyers have access to lenders and real estate professionals who are knowledgeable about the state's affordable housing programs;
- Providing financing to small and large developers, both non-profit and for-profit, to build and redevelop rental and homeowner housing to meet a variety of needs; and
- Administering state funding to 120 local governments to carry out locally determined housing strategies.

These activities require Florida Housing to have knowledge of and carry out hundreds of tasks to provide financing and compliance monitoring across the platform of varied programs that we administer.

Florida Housing is a state HFA intermediary for the NFMC Program. The initial funding for the NFMC program was provided by Congress in the fiscal year 2008 Consolidated Appropriations Act. Additional funding was provided through the Housing and Economic Recovery Act (HERA) of 2008 and the Omnibus Appropriations Act of 2009. The NFMC program is administered through a competitive application process by NeighborWorks<sup>®</sup> America, within guidelines defined by Congressional legislation. NeighborWorks<sup>®</sup> America is an independent, congressionally chartered non-profit organization based in Washington, DC, with a mission to provide access to sustainable homeownership and safe, affordable rental housing.

In the first round of funding (2008), Florida Housing received \$1,015,389 of the \$4.8 million in total funding Florida received. This grant allowed Florida Housing to serve as an intermediary for 19 local housing counseling agencies that provided foreclosure prevention and intervention services to more than 2,500 homeowners in 2008 and 1,000 more during 2009.

A second round of funding was made available in mid-2008 and Florida Housing was awarded \$2,294,700 of the \$9.5 million Florida received. These funds were used to increase the number of counseling providers from 19 to 26, which resulted in housing counselors serving more than 8,000 families.

As part of the funding Florida Housing received through the second round of the NFMC program, Florida Housing and Florida Legal Services received an award of \$1.5 million to provide legal assistance to more than 2,700 homeowners at risk of foreclosure.

A third round of funding was made available in 2009. Florida Housing awarded \$1,805,370 of the \$3.78 million Florida received. These funds were provided to 32 sub-grantees and are anticipated to serve more than 6,500 families statewide.

Florida Housing applied for a fourth round of NFMC funding in February 2010 and expects to receive notification from NeighborWorks regarding the possibility of funding mid-April 2010.

Florida Housing has managed the FTHB Program for many years and has long-term relationships with participating lenders and real estate professionals statewide. Florida Housing has the experience required to manage this program across a number of arenas, including:

- Management of the single family indenture, including bond structure and sales, financial soundness, loan securitization, arbitrage rebate analysis, cash flows to meet the requirements of the indenture, rating agency requirements and management of contracts for professionals outside of Florida Housing needed to operate the indenture;
- Organization and tracking of mortgage flow in the program via pipeline management; working with lending partners and servicers to clear conditions on mortgage files; and monitoring administrators/servicers for compliance with state, federal and programmatic regulations and requirements;
- Monitoring documentation and loan files for the downpayment assistance programs, including maintenance of a database to track applications and funding status, and carrying out liaison duties to oversee the approval and tracking process for new participating lender applications;

- Maintaining a current database of HUD- and SHIP-approved Homebuyer Counseling Agencies throughout the state that are approved by Florida Housing to provide such counseling;
- Maintaining a database of mortgage insurance providers participating in FTHB program, their ratings and any developments that would impact their ability to write coverage for program borrowers; and
- Maintaining constant communication with participating lenders and Realtors.

Florida Housing's FTHB program has supplied over \$2 billion in first mortgage assistance to over 16,800 households since inception. We have the allocation and capacity to issue an additional \$1 billion of tax-exempt mortgage revenue bonds for first mortgages. With an average FTHB Program first mortgage loan amount currently at \$100,539, we have the resources and a lender base sufficient to remove in excess of 10,700 homes from the existing housing stock in the targeted counties.

### ***Key Staff for the HFA Hardest Hit Fund***

#### **Barbara Goltz, Chief Financial Officer**

Barbara E. Goltz has held the position of Chief Financial Officer of Florida Housing since September 2000. Prior to accepting her position at Florida Housing, Ms. Goltz was a senior manager for the Florida Lottery from 1987 until 2000. She also held senior management positions with the Department of Education from 1975-1987. Ms. Goltz is a Certified Public Accountant and received a Bachelor of Science degree in Accounting from Florida State University.

#### **David Westcott, Director of Homeownership Programs**

David Westcott became Director of Homeownership Programs at Florida Housing in October 2005. In this capacity, he oversees the First Time Homebuyer Program, the Down Payment Assistance Program, the Homeownership Pool Program, the HOME Again Disaster Recovery Loan Program, the Community Land Trust Program, and the Community Workforce Housing Innovation Pilot Program. Prior to his appointment as Director, he served as Florida Housing's Multifamily Mortgage Revenue Bonds Program Administrator for four years and was responsible for administering all aspects of that program. Before that, he practiced real property and administrative law in both the public and private sectors. Mr. Westcott received his BS in Political Science in 1988 and his JD in 1991 from Florida State University. As a member of the Senior Management team, Mr. Westcott is responsible for the shaping, development and management of all Homeownership Program initiatives in coordination with other Florida Housing programs; providing information and support to the legislative and executive branches of government as well as local governments; and consulting with and directing activities of counsel, underwriters, environmental consultants and other parties as necessary.

#### **Nicole Gibson, Homeownership Programs Administrator**

Nicole Gibson is the Homeownership Programs Administrator at Florida Housing Finance Corporation. Ms. Gibson has been with Florida Housing for seven years and is responsible for the day-to-day administration of various homeownership programs, including the Homeownership Pool Program, HOME Again, the Community Workforce Housing Innovation

Pilot Program and Community Land Trusts. Additionally, she is responsible for the administration of the Florida Housing's ongoing National Foreclosure Mitigation Counseling grant. Ms. Gibson received a BA degree in Business Administration and Accounting from Flagler College and her MBA at Florida State University. She has been recognized by HUD as a Certified HOME Program Specialist – Regulations.

Diane Carr, Servicing Administrator

Ms. Carr has been employed by Florida Housing for ten years and has acted as the liaison with HUD for most of those years. As the primary HUD contact, Ms. Carr monitors activities with HUD, works with Florida Housing staff to ensure the accurate and timely maintenance of HUD's reporting system and monitors all HUD resources, commitments and spending for all departments within Florida Housing. Ms. Carr's work experience includes 18 years of banking and eight years in real estate sales. Ms. Carr will supervise loan servicing activities and will also carry out Quality Assurance activities. Ms. Carr has a BS degree in Accounting and Finance from Florida State University.

Laura J. Cox, Director of Asset Management and Guarantee Fund

Before joining Florida Housing Finance Corporation in July 2002, Ms. Cox practiced real estate, corporate, transactional and financial services regulatory law. Her practice included advising financial institutions on a broad spectrum of matters from governance and regulatory compliance to issues arising in the ordinary course of business. She has also previously held management positions in the banking industry, most recently as Chief Operating Officer and Chief Financial Officer. Ms. Cox earned her MBA (Banking) degree in 1988 and her JD degree in 1999 from Nova Southeastern University. She will be responsible for general management and oversight of compliance monitoring activities to ensure compliance with federal laws and regulations.

Robin Grantham, Compliance Monitoring Administrator

Ms. Grantham joined Florida Housing in April 1996 and currently serves as Compliance Monitoring Administrator, responsible for directing all activities of the Compliance Department. She is a Certified Occupancy Specialist. Ms. Grantham's experience includes over four years in several of Florida Housing's program areas, and eight years in the Florida Housing General Counsel's Office as Contracts Administrator. Her day-to-day activities include the supervision and coordination of compliance monitoring activities for programs, including Multifamily Mortgage Revenue Bonds, State Apartment Incentive Loans, HOME, HUD Risk Sharing and the Davis-Bacon Act.

Stephanie Sgouros, Inspector General

Ms. Sgouros has been at Florida Housing since 2000, and has over 20 years experience as an auditor. She previously worked at the Florida Office of the Comptroller (now the Chief Financial Officer) where she developed audit/review programs and conducted and supervised compliance, performance and operational audits, drafted reports and made recommendations to improve state operations. Prior to that, she worked for the Florida Office of the Auditor General where her duties included assisting in audits of various federal financial assistance programs, such as JTPA, EDWAA and VR. Ms. Sgouros received her BS degree in Accounting from Florida State University in 1987 and her CPA certification in 1991. Ms. Sgouros currently manages Florida Housing's Office of Internal Audit, which monitors Florida Housing's risks, internal controls, procedures and accounting and operational practices. The Internal Audit Office

is independent, reporting organizationally to the Board and day-to-day to the Executive Director. Ms. Sgouros oversees various financial, operational, performance and compliance audits/reviews of Florida Housing's operations and programs, both state and federal, including HOME and Low Income Housing Tax Credits. She also conducts investigations of internal and external complaints of fraud, abuse, waste, etc.

#### Sheila A. O'Kane, Systems Auditor

Ms. O'Kane has been at Florida Housing since 2000, and has over 20 years experience as an auditor. She performs operational, performance, compliance and financial audits/reviews of various state and federal programs, such as HOME, and investigates internally and externally generated complaints. She previously worked at the Florida Office of the Comptroller where she developed audit/review programs and conducted compliance, performance and operational audits, drafted reports and made recommendations to improve state operations. Prior to that, Ms. O'Kane worked for the Office of the Auditor General where she performed Information Technology audits of federally funded programs. Ms. O'Kane received her BS degree in Accounting from Florida State University in 1987 and her Certified Information Systems Auditor certification in 1995.

#### Compliance Infrastructure

Florida Housing outsources many of our current monitoring requirements to third parties. We anticipate that our current monitoring contracts will not encompass the new programs designed for the HFA Hardest Hit Fund, but we have the necessary technical expertise to design and implement new contracts for the Compliance Monitoring of the HFA Hardest Hit Fund requirements. Additionally, Florida Housing has an internal Quality Assurance Review Program that routinely determines whether contracted servicers perform complete, accurate and timely work consistent with the terms of each contract, including the stated scope of work. All servicers are subject to a Quality Assurance Review (QA Review) for all areas of servicing. The scope and frequency of the QA Reviews are risk-based, as determined from time to time by Florida Housing through an analysis of the loan programs offered. During each QA Review, inconsistencies, deficiencies and discrepancies identified are reported to Florida Housing's senior management.

#### Audit and Internal Controls and Fraud Risk Mitigation

Policies, procedures and internal controls required to implement the HFA Hardest Hit Fund will be modeled on processes that are already in place and operating as intended. The HFA Hardest Hit Fund will be added to our Office of Internal Audit's work plan and Internal Audit Risk Assessment. Florida Housing's Office of Internal Audit will review our partners' oversight activities, including related working papers, internal controls, etc., for sufficiency.

#### Reporting Protocols

Florida Housing will begin establishing reporting protocols based on existing requirements. For the Mortgage Intervention Strategy, Florida Housing already receives 45 different data points for reporting under the NFMCC program including demographic information, mortgage information including lender, monthly PITI and additional lien information. For participants in the Mortgage Intervention Strategy, Florida Housing intends to supplement data captured at homeowner

closeout, including mortgage modification information or other resolution, types of counseling received and any other pertinent data to help assess program and participant success.

### Metrics Regarding Efficacy

Florida Housing has met or exceeded all of its statutorily mandated performance targets for the programs we administer every year since the targets were implemented in 1998. Current metrics and goals of Florida Housing include:

*Goal:* To maximize the capacity of local governments and the private sector, both for profit and nonprofit, to develop and preserve affordable housing.

*Objective 1:* To maximize targeted dollars that are allocated to the targeted population.

*Outcome 1:* Percent of statutorily targeted dollars that are allocated to the targeted population.

*Objective 2:* To maximize leveraging of state recourses.

*Outcome 2:* Ratio of non-state resources to state-appropriated dollars.

*Objective 3:* To maximize the percentage of set-aside units at designated percentages of median income to total units.

*Outcome 3:* Percent of units exceeding statutory set asides.

## **D: Staffing and Business Partners**

### Key Outside Relationships for the Mortgage Intervention Strategy

Florida Housing intends to issue at least two solicitations for services to implement the Mortgage Intervention Strategy. The first solicitation will be for contracting with the local housing counseling agencies and units of local government. We would look for agencies that have demonstrated experience in delivering housing counseling activities, capacity to add the Mortgage Intervention Strategy to their current delivery system and a plan to reach out to the homeowners in their local community. The Mortgage Intervention Strategy relies heavily on the work of these partners to provide intake and screening of eligible applicants, to walk the homeowners through the program and provide guidance and education. Also, these agencies will work with the homeowners to help modify their current mortgage. Florida Housing anticipates using a fee-for-service structure for implementation of this program. Fee arrangements have not been secured, but using the NFMFC program as a guide, Florida Housing believes the following services and corresponding fees to be appropriate for the delivery of the program:

- Client intake - \$100 per homeowner
- Determination if homeowner meets program requirements and loan closing - \$200 per homeowner
- Monthly case management - \$75 per month per homeowner
- Successful outcome / mortgage modification - \$250 per outcome
- Program related support for entities that perform all case management duties - \$1,200 per entity per month
- Program related support for entities that perform limited case management duties - \$600 per entity per month



The second solicitation will be for Compliance Monitors. Florida Housing has successfully negotiated Compliance Monitoring contracts with organizations across the state for a number of years. It is anticipated that our current Compliance Monitoring contracts will not cover the monitoring requirements of the Mortgage Intervention Strategy. Again, fee arrangements have not been finalized, but based on our past experience in contracts for Compliance Monitors, the following fees are considered to be appropriate for the monitoring requirements:

- Desk Review – \$75 per file reviewed
- On-Site Review – \$1,500 flat fee plus \$75 per file reviewed

A possible third solicitation may be necessary. Florida Housing may decide to use an Escrow Agent or Trustee to facilitate the homeowner mortgage payments to each lender on a monthly basis depending on the final program payment system selected.

We will be providing training to our local housing counseling agencies and units of local government participating in this program. The first round of training will encompass the specific details and program metrics that the local housing counseling agencies and units of local government will need to consider when evaluating each homeowner. We will also need to train on the reporting requirements and ongoing case management requirements of the program. After this immediate training need is met, Florida Housing intends to supply ongoing training related to the current foreclosure crisis.

Florida Housing currently has a Foreclosure Prevention Training Services contract with a nationally recognized NeighborWorks<sup>®</sup> trainer, the Mortgage and Credit Center. Under this contract, we have provided both classroom-based and web-based training. The web-based training has proven to be beneficial because it allows more housing counselors to access the trainings at no cost. Some of the previous training included topics such as “Using the Decision Tree as a Counseling Intake Tool”, “The Role of Counselors in Foreclosure Counseling” and “Update to Making Home Affordable”. In 2010, our trainer will add video podcasts, available at any time, as a new way to enhance outreach to our subgrantees.

Under this current contract the fee schedule is as follows:

Webinars - \$2,800 per webinar

Three-day in-person workshops - \$15,970 per workshop

Video Podcast - \$2,500 per podcast

To support Florida’s affordable housing delivery system, Florida’s Affordable Housing Catalyst Program provides training and technical assistance to non-profit organizations, local governments and other community based organizations on all aspects of federal and state housing programs. In the past, the array of workshops has included topics such as homebuyer education, understanding the income qualification process, program administration, acquiring foreclosure affected properties for affordable housing, preserving existing affordable units and foreclosure mitigation. For this initiative, Florida Housing will work with the state’s Catalyst Program provider, the non-profit Florida Housing Coalition, to develop a set of workshops targeted directly at providing training and technical assistance to providers of related services on topics pertinent to the HFA Hardest Hit Program.

Founded in 1982, the Florida Housing Coalition is a nonprofit, statewide membership organization whose mission is to act as a catalyst to affordable housing. The Florida Housing Coalition has seven offices throughout Florida and a technical assistance staff of seven. The Coalition is currently under contract with Florida Housing for Catalyst as well as two other programs, and provides technical assistance through a contract with the Florida Department of Community Affairs on the Neighborhood Stabilization Program. The Coalition also carries out technical assistance on housing matters through other partnerships.

Under the current contract the fee schedule is as follows:

New One Day Workshop (statewide)	\$9,600 (drops to \$7,825 after first occurrence)
New Two Day Workshop	\$12,975 (drops to \$10,400 after first occurrence)
Clinic 1-day (regional small group)	\$7,100
Clinic 2-day	\$4,828

### E. Administrative Expenses

<b>Program Duration (years)</b>	<b>5</b>
<b>One-time / Start-Up Expenses:</b>	
Initial Personnel	\$17,000
Building, Equipment, Technology	\$0
Professional Services	\$300,000
Travel	\$50,000
Website Development /Translation	\$22,500
<b>Subtotal</b>	<b>\$389,500</b>
<b>Operating / Administrative Expenses:</b>	
Salaries for 3.55 Direct FTE and 8.15 Indirect FTE	\$7,470,000
Professional Services (Legal, Compliance, Audit, Monitoring)	\$1,700,000
Travel	\$200,000
Buildings, Leases & Equipment	\$680,000
Information Technology & Communications	\$260,500
Office Supplies/Postage and Delivery/Subscriptions	\$51,000
Risk Management / Insurance	\$90,000
Training	\$1,243,800
Marketing / PR	\$54,000
Miscellaneous Operational Overhead	\$630,000
Key Business Partners On-Going	\$7,950,000
<b>Subtotal</b>	<b>\$20,329,300</b>
<b>Transaction Expenses:</b>	
Recording Fees	\$766,000
Units Served	10,000
Cost/Unit	\$75
Contingency for Recording Fees	\$16,000

Decision Costs	\$2,046,000
Units Served	10,000
Cost/Unit	\$200
Contingency for Decision Costs	\$46,000
Wire Transfer Fees	\$50,000
Units Served	5,000
Cost/Unit	\$10
File Intake	\$3,069,000
Units Served	30,000
Cost/Unit	\$100
Contingency for File Intake	\$69,000
Successful File	\$11,764,000
Units Served	10,000
Cost/Unit	\$1,150
Contingency for Successful File	\$264,000
<b>Subtotal</b>	<b>\$17,695,000</b>
<b>Grand Total</b>	<b>\$38,413,800</b>
<b>% of Total Award</b>	<b>9.19%</b>
<b>Award Amount</b>	<b>\$418,000,000</b>
<b>Average Annual Expenses</b>	<b>\$7,682,760</b>

## F. Overview of Risk Management / Fraud Prevention

Florida Housing intends to comply with all requirements under Emergency Economic Stabilization Act of 2008 (EESA) including but not limited to, allowing full compliance and oversight by the Treasury, the Comptroller General of the United States, Government Accountability Office, Congressional Oversight Panel and the Special Inspector General of the Troubled Asset Relief Program as to the application of any EESA funds. All books, communications and records regarding the use of EESA funds by Florida Housing will be made available for review by any of these entities upon request.

### Compliance Monitoring by Florida Housing Finance Corporation for the Mortgage Intervention Strategy

Florida Housing outsources much of the participant eligibility verification and compliance monitoring required for programs that it administers to third parties with long-standing relationships with Florida Housing. Florida Housing's compliance monitors will perform periodic on-site and desktop reviews of Service Providers. These reviews will include, but not be limited to:

- a. Review of written procedures regarding all program processes, including intake and screening;
- b. Review of service providers' record keeping including tracing a sample of reported items to supporting documentation and vice versa;
- c. Review of client files to determine that sufficient documentation is included;

- d. Verification of homeowner eligibility, including verification of income or lack thereof;
- e. Verification of home purchase price limits;
- f. Verification that individual mortgages do not exceed the maximum allowable amount for the county;
- g. Verification that mortgage expenditures do not exceed the stated required payments;
- h. Verification of whether the applicant was ever able to afford the home in question;
- i. Recalculation of
  - i. current loan-to-value;
  - ii. level of consumer debt;
  - iii. number of months in arrears; and
  - iv. any other items to help determine whether sustainable homeownership is a realistic goal for the applicant; and
- j. Determination that award limits were not exceeded.

Florida Housing Servicer Oversight for the Mortgage Intervention, Strategy. Florida Housing's Quality Assurance Review Program routinely determines whether contracted servicers perform complete, accurate and timely work consistent with the terms of each contract, including the stated scope of work. All servicers are subject to a QA Review for all areas of servicing. The scope and frequency of the QA Reviews are risk-based, as determined from time to time by Florida Housing through an analysis of the loan programs offered. During each QA Review, inconsistencies, deficiencies and discrepancies identified are reported to Florida Housing's senior management. In addition, all servicers may be audited or reviewed by Florida Housing's Internal Audit (IA) office. These audits/reviews may be triggered by a request from Florida Housing staff or its servicer(s), a QA report or finding, an anonymous complaint or IA's own risk assessment. These reviews of contracted service providers will include, but not be limited to:

- a. Periodic reviews of contracted service providers to ensure compliance with all contract terms and Program requirements.
- b. Review of all compliance monitoring reports issued by its contracted service providers. Florida Housing will take appropriate action whenever warranted, such as scheduling a follow-up review or technical assistance, or suspending or terminating the reviewed party.
- c. Performing analytical procedures to assist in detecting fraud, abuse, waste, irregularities and areas of risk.
- d. Florida Housing will use a risk-based approach in planning reviews.
- e. Florida Housing's Office of Internal Audit may perform an audit or review of any contracted service provider or other party at any time at Florida Housing's discretion.

Internal Audit Plan for the HFA Hardest Hit Fund

Policies, procedures and internal controls required to implement the HFA Hardest Hit Fund will be modeled on processes that are already in place and operating as intended. IA will review our partners' oversight activities, including related working papers, internal controls, procedures, checklists, etc., for sufficiency. IA's Inspector General and/or staff will carry out the following steps for the HFA Hardest Hit Fund:

- Evaluate policies, procedures and internal controls for compliance with program requirements;
- Identify any internal control weaknesses that may result in fraud, waste, abuse or loss of funds or other assets and recommend improvements and/or compensating controls;
- Test, analyze and/or perform other appropriate procedures to ensure proper accountability and transparency for the funds disbursed to assess:
  - Timely expenditure of funds;
  - Quality expenditure of funds;
  - Budget/cost compliance;
  - Adequate tracking of funds received by partners;
  - Adequate documentation of expenditures by partners;
  - Adequate procedures and documentation of client eligibility, housing eligibility and determination of downpayment assistance/subsidy limits by partners;
  - Legal compliance; and
  - Fraud prevention strategies;
- Evaluate each partner's compliance with applicable laws, rules, regulations and contract provisions;
- Notify senior management and/or the Florida Housing Board of Directors of any risky management practices, missing or ineffective internal controls, instances of non-compliance with program requirements or ineffective or inefficient practices related to the HFA Hardest Hit Fund; and
- Investigate complaints of alleged fraud, abuse and waste in the allocation and use of the HFA Hardest Hit Fund funds both by Florida Housing and its partners.

## **G. Tracking / Reporting**

Florida Housing intends to monitor and evaluate the following metrics:

- Proportion of HFA Hardest Hit funds used by program strategy per quarter compared to program goals;
- Number of service providers participating in the program including legal service providers, local governments, counseling providers and lenders;
- Clients served by program strategy per quarter compared to program goals;
- Foreclosures avoided by strategy; and
- Homes purchased by first time homebuyers.

Florida Housing uses Great Plains software for financial accounting which offers the ability to track funding sources, export data and provide ad hoc reporting. Florida Housing contracts with an independent audit firm to carry out annual audits of the financial statements. The independent auditor opines on the financial statements; internal control over financial reporting and on compliance and other matters; and compliance and internal control applicable to each major federal award program. Florida Housing will maintain a separate budget for the HFA Hardest Hit Fund program, and all Treasury funds provided to implement this plan will be used solely to fund the HFA Hardest Hit Fund program and related expenses. Florida Housing adheres to OMB A-133 audit requirements, OMB Circular A-102 state government administrative requirements, and OMB Circular A-87 cost principles for governmental entities.

Florida Housing proposes to submit the following reports to Treasury on a quarterly basis or as requested:

- Demographic information on all clients served by the HFA Hardest Hit Fund;
- Status and final outcomes of clients served by the Mortgage Intervention Strategy;
- Quarterly progress reports comparing performance to program goals;
- Quarterly expenditure reports for the use of the HFA Hardest Hit funds detailing expenses for each strategy and program administration; and
- Other ad hoc reports as requested.

#### Tracking Systems for the Mortgage Intervention Strategy

Qualification and intake data will be entered into existing third-party service provider systems (CounselorMax, Home Counselor Online or other compatible system) already in service by the local housing counseling agencies. The data will be exported in a standardized Excel format and submitted to Florida Housing monthly via a web-based upload interface. The data will then be compiled and stored in a relational database for reporting purposes.

Florida Housing will collect detailed demographic information on all clients served at time of intake. In addition, program milestones such as loan closing, employment verification and final outcome will be tracked and reported through a web-based interface. Table 3 provides a data dictionary of proposed homeowner data elements to be captured for the Mortgage Intervention Strategy.

Loan closing, employment verification and final outcome data will be captured via a web-based interface to be created by Florida Housing. Local housing counseling agencies and units of local government will authenticate and input data as processing events occur.

## **H. Overview of Risk Management/Fraud Prevention**

### **1. Business Partner Selection – Describe the selection process including:**

#### **a. What are the criteria for the selection?**

Florida Housing intends to use its competitive solicitation process to select its business partners.

#### **b. Who will review/approve selection?**

Florida Housing's Executive Director will establish a review committee composed only of employees of Florida Housing to evaluate responses to the competitive solicitation. The review committee will provide findings, recommendations, or both to Florida Housing's Board of Directors.

#### **c. What due diligence will be performed, and by whom?**

The Quality Assurance section will perform periodic review of Florida Housing's business partners to determine whether work performed is in accordance with the terms of each contract, as stated in the scope of work. Any findings will be followed up on by the Quality Assurance staff. Any serious findings or concerns or complaints will be handled by Florida Housing's Internal Audit Office.

**d. What are the risks identified for the business process(es) performed by the business partners?**

Risks include but are not limited to: poorly designed or implemented process flows; employee(s) lacking necessary knowledge/skills; lack of capacity; duties not properly segregated.

**e. What are the identified potential conflicts of interest for each business partner? How will these risks be mitigated? Who will evaluate the mitigation and perform on-going monitoring?**

Potential conflicts of interest include but are not limited to: business partner employee may also work for a competitor; or be related to a contractor or their employee; or steer clients toward programs/products that are not as beneficial to the client.

Mitigating controls include but are not limited to: business partner's employees are limited to an agreed upon client caseload; business partner's employees sign a statement that clients will not be referred to a competitor or other program/product if it is not in the client's best interest; business partner certifies that its employees will not be allowed to serve/approve any relatives to receive funds under this program; business partners will be provided with appropriate checklists and training as necessary.

Florida Housing's monitoring agents will monitor and evaluate the service providers (such as counseling agencies). The Quality Assurance section will perform periodic reviews of Florida Housing's monitoring agents. If severe deficiencies and/or discrepancies are noted or suspected by either the monitoring agents or Quality Assurance staff, Florida Housing's Internal Audit will perform appropriate procedures.

**2. Program Compliance – Describe the compliance approach and methodology including:**

**a. What are the criteria and associated data elements to be used?**

Internal Audit will evaluate policies, procedures and internal controls for compliance with program requirements. Data elements would include but is not limited to: loan file/client files that should include income verified with pay stubs, income statements; credit report exist, homeowners' insurance policy; unemployment compensation documentation.

**b. What is the method that will be employed (e.g. random sampling, re-performance, on-site reviews)?**

Florida Housing's Internal Audit will use a risk based methodology to select business partners for Florida Housing's monitoring agents to review either on-site or remotely. Internal Audit will use a combination of random and judgmental sampling in selecting the client files for the monitoring agents to review.

**c. What is the frequency of each method?**

Internal Audit and Quality Assurance will conduct up to 10 reviews a year of business partners (including monitoring agents) either on-site or remotely. Florida Housing's monitoring agents will perform a minimum of one review for each business partner that served at least one client during the first year. Subsequent review frequencies will be risk-based and determined partly by the number of clients served and the number and severity of any previous review findings.

**d. Who will perform compliance monitoring for adherence to program guidelines?**

Florida Housing will issue a competitive solicitation and contract with several organizations across the state for compliance monitoring. Such organizations may likely include organizations that currently perform compliance monitoring duties for other Florida Housing programs.

**e. If compliance is outsourced, how will it be monitored? Describe metrics and associated data elements as well as methods (e.g., random sampling, re-performance).**

The Quality Assurance section will perform periodic review of Florida Housing's monitoring agents and any other business partners handling compliance to determine whether work performed is in accordance with the terms of each contract, as stated in the scope of work, and therefore in compliance with the Program. Quality Assurance will conduct up to 10 reviews a year of business partners (including monitoring agents) either on-site or remotely. Reviews will be scheduled using a risk-based methodology. Quality Assurance staff reviews will include the examination of a random sample of back-up documentation for the monitoring agents' review reports as well as their procedures and processes. If severe deficiencies and/or discrepancies are noted or suspected by the Quality Assurance staff or Program staff or if any whistleblower or public complaints are received, Florida Housing's Internal Audit will perform appropriate procedures.

**3. Readiness Assessments – Describe the process the eligible entity will take to ensure that it can successfully implement the program, handle the capacity, and monitor the program including:**

- a. What independent party will perform the assessment?**
- b. What criteria will be used to assess people, processes and technology?**
- c. How will outsourcing arrangements be assessed?**
- d. When will the assessment be started and completed?**
- e. How will the assessment timeline impact the program launch?**

Florida Housing proposes conducting our readiness assessment via a pilot program. We propose to implement the Mortgage Intervention Strategy in Lee County, Florida. Florida Housing focused in on an area that would have a good number of eligible recipients for the Mortgage Intervention Strategy. Lee County has experienced the largest housing price decline from peak in Florida at 49.7%. Twenty-two percent of all loans in Lee County are considered seriously delinquent while the average annual unemployment rate for 2009 stood at 12.4%.



Based on our working template for the methodology for allocating funds to impacted areas in Florida, Lee County is slated to receive approximately \$23 million of Florida's HFA Hardest Hit Funds for the Mortgage Intervention Strategy.

We anticipate that this pilot program will last for about 60 – 90 days prior to the statewide implementation of the program. It is not anticipated that the entire \$23 million allocation to Lee County will be encumbered during this pilot program. We will start the pilot as per the Program Inception described in the Term Sheet. It is anticipated that it will take two months to issue and process the necessary RFQ for Housing Counseling Agencies. Florida Housing anticipates that the RFQ will be finalized, scored and presented to the Board of Directors at the end of July 2010.

We will be working with the identified counseling agencies that service Lee County to have the contracts signed and ready as soon as possible. We will also need to provide training to the identified counseling agencies on the mechanics of the program including client intake, HAMP eligibility screening, determination requirements and reporting requirements of the program. It is expected that this process will start shortly after the contracts are signed. The pilot program is anticipated to be functional by September 1, 2010.

Based on this pilot program, Florida Housing will be able to identify and address any potential problems that could occur when implementing this program. We will be able to gauge potential statewide demand for the program based on the demand experienced in Lee County. Also, we may be able to better predict the capacity needed of our counseling agencies when the program is launched statewide and assess areas where additional capacity may be needed based on results achieved in Lee County. Also, we may identify and provide additional opportunities for training based on the outcomes experienced in Lee County.

**4. On-going Internal Controls – Describe the process the eligible entity will take to ensure effectiveness of its on-going internal controls?**

**a. What independent party will perform the assessment?**

In addition to any review of the program performed by Florida Housing's External Auditors, Florida Housing's Internal Audit Office will review processes, procedures, contracts and general internal controls over the program to determine program compliance.

**b. What criteria/methods will be used to ensure the effectiveness of the entity's internal controls including but not limited to: monitoring outsourced relationships; expenses; allocation of monies, repayments (if applicable); books and records; compliance?**

Florida Housing's monitoring agents, Quality Assurance section and, where needed, Internal Audit office will monitor outsourced relationships. Florida Housing's program staff will review all compliance (and any other) reports issued by the monitoring agents, and Quality Assurance and Internal Audit staff. Such reviews will

include a review of expense and allocation documentation, the business partner's books and records and their compliance with the program.

In addition, Florida Housing's program and accounting staff will review all expenses submitted for reimbursement, and any repayments, if required. Furthermore, Florida Housing's financial records related to the program will be audited by its external auditors each year.

**c. How will outsourcing arrangements' internal controls be assessed?**

Florida Housing's monitoring agents will review business partners' process procedures, their files and filing system and their books and records for sufficiency.