

Statement

by

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before the

Financial Services Committee

of the

United States House of Representatives

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Chairman Frank, Ranking Member Bachus, and members of the Committee, I am Brian Hudson, executive director and chief executive officer of the Pennsylvania Housing Finance Agency (PHFA). Thank you for the opportunity to testify today on behalf of PHFA on the TARP for Main Street Act of 2009, H.R. 3068.

I would also like to recognize and thank two Pennsylvania members of the Committee: Capital Markets, Insurance, and GSE Subcommittee Chairman Paul Kanjorski and Committee member Jim Gerlach. We in Pennsylvania deeply appreciate everything you have done for the Commonwealth, PHFA, and affordable housing.

Mr. Chairman, thank you for your early and persistent efforts to revive with federal help the struggling municipal bond market. Your legislative initiatives, including your previous Troubled Assets Relief Program (TARP) bill, and your appeals to the Administration over the last several months have succeeded in focusing critical attention on the needs of the municipal bond market and particularly the tax-exempt Housing Bond market.

Because of your encouragement, the Administration is now on the verge of announcing a plan to support state and local Housing Finance Agency (HFA) affordable housing lending by purchasing HFA Housing Bonds and providing liquidity to support HFA variable rate debt. With this assistance, HFAs will finally be able to put our Housing Bond resources to work to produce hundreds of thousands of affordable, sustainable homes and jobs, as well as tax revenues in support of our nation's economic recovery.

We understand that the Administration's HFA initiative as currently conceived does not rely on TARP resources. However, since the HFA plan has not yet been finalized, we urge you to leave open the possibility of committing TARP resources to it should that become necessary to the plan's successful implementation.

Mr. Chairman, we would also like to thank you for your leadership in creating the Housing Trust Fund and for dedicating through this legislation TARP funds to its initial capitalization. My agency and my fellow state HFAs are eager to help address with these new resources housing needs we struggle to meet with existing resources, particularly those of extremely low-income families.

Finally, we are pleased that your new TARP legislation reauthorizes and allocates funding to the Emergency Mortgage Relief Program. As you consider the optimal design of this program, we urge you to look at PHFA's Homeowners' Emergency Mortgage Assistance Program (HEMAP) as a model. We also encourage you to consider making HFAs eligible for direct funding under this program, so that programs such as HEMAP may benefit and be replicated around the country.

Also, Senator Casey was successful in getting an amendment accepted in the Senate during deliberations on Neighborhood Stabilization Program funding as reauthorized in the American Recovery and Reinvestment Act of 2009. Mr. Casey's amendment would have allowed the use of NSP funds for foreclosure prevention activities such as HEMAP in the Commonwealth. Opening up NSP for these types of activities may be another option to stem the tide of foreclosures as a result of temporary economic conditions.

Pennsylvania's Act 91 of 1983 authorized PHFA to develop HEMAP to help certain homeowners in danger of losing their homes to foreclosure. Pennsylvania created this program to address a large number of foreclosures, particularly in the southwestern part of the state, resulting from an economic recession in the early 1980s.

HEMAP has been very successful. It has saved 42,700 families from foreclosure by providing over \$442 million in loans to at-risk homeowners. Over 20,000 loans have been repaid in full and HEMAP has received over \$246 million in principal and interest repayments from homeowners who have benefited from the program. These repayments are recycled into new HEMAP loans, assisting additional Pennsylvanians. State appropriations have totaled \$225.5 million.

The average loan to a distressed homeowner is \$10,500, much less than the \$35,000 it costs to complete most foreclosure actions. Additionally, this estimated average foreclosure cost does not consider the impact of foreclosures on families, neighborhoods and communities.

HEMAP prevents mortgage foreclosures resulting from defaults caused by circumstances beyond a homeowner's control. It provides loans to bring delinquent mortgage payments current and may also provide continuing help with mortgage payments. Total assistance cannot exceed 36 months. Unlike programs that have been created by the federal government and some states to address structurally unsound or predatory lending practices, HEMAP is focused on helping homeowners who are facing a short-term financial setback. The number one reason for an approved applicant's delinquency under HEMAP is the loss of a job. The second reason is illness. In all instances, there has to be a reasonable likelihood that the homeowner will be able to resume making the mortgage payment without state help since HEMAP assistance is temporary.

With over 25 years of experience, PHFA has refined the operation of this primarily "unemployment-driven" program. Lenders in the Commonwealth are some of its most ardent supporters because of the seamless nature of its operation.

These results led Harvard University to recently recognize HEMAP as a top innovation in American Government.

Generally, HEMAP works as follows: if someone with a mortgage in the Commonwealth becomes 60 days or more delinquent, before foreclosing, lenders are required to send an "Act 91" Notice informing the homeowner of the HEMAP program and directions on how to apply.

After receiving the Notice, a homeowner has 33 days to have a face-to-face meeting with a consumer credit counseling agency, which then has 30 days from that date to get the application to PHFA. Ninety-three counseling agencies throughout the state provide this service.

Counseling agencies are under contract with PHFA to prepare applications for HEMAP loans. Their job is to help homeowners present the most complete and accurate applications regarding their financial circumstances. They also counsel homeowners on financial matters and spending habits and often serve as negotiators between homeowners, mortgage lenders, and other creditors in forbearance negotiations.

Upon receipt of the application, the Agency has 60 days to render a decision of eligibility. If an application is made in a timely manner, mortgagees are required to halt any foreclosure action until PHFA has rendered a decision.

The following eligibility criteria must be met to obtain HEMAP loan assistance:

- Homeowners must be at least 60 days delinquent on at least one of their mortgages. If a homeowner has more than one mortgage, not all mortgages need to be delinquent. However, no more than two mortgages can receive HEMAP assistance.
- The home must be located in Pennsylvania and the homeowner must reside in the home.
- The home must be a one or two-family residence.
- Mortgage loans insured by the Federal Housing Administration under Title II of the National Housing Act are not eligible.
- HEMAP loans cannot exceed \$60,000 or 36 months of payments.
- There is no income limit, however, the average median income for homeowners served by HEMAP in 2008 was \$38,000 (prior to encountering the circumstances which prompted the mortgage default).
- HEMAP loans can be in no worse than a third lien position.
- Homeowners must be suffering financial hardship due to circumstances beyond their control which renders them unable to correct the delinquency within a reasonable period of time--loss of employment from layoffs or plant closings, serious medical problems and spousal abandonment are typical circumstances.

- Homeowners must be able to demonstrate that they have a reasonable prospect of resuming normal mortgage payments within 36 months and paying off the mortgage by maturity. Job skills, employment history, efforts at retraining, etc., are all relevant factors that the Agency will consider in determining whether there is a reasonable prospect of applicants' being able to meet this requirement.

If approved, mortgage payments are made by HEMAP directly to the lender on the homeowner's behalf in the form of a mortgage loan. The HEMAP interest rate is currently 6.5 percent. However, interest does not accrue until the homeowner is financially able to start repayment based on a formula established by statute.

If denied a HEMAP loan, the homeowner may appeal the decision. This appeal process is not part of the law but rather was instituted by the Agency to provide applicants with a second opportunity to resolve misunderstandings. A lender may continue the foreclosure action during the appeal process.

Further information about PHFA programs may be viewed on the internet at www.phfa.org.

Again, thank you for the invitation. I look forward to answering any questions you may have.