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MARK-TO-MARKET

POCKET GUIDE

U.S. Department of Housing and Urban Development

Office of Multifamily Housing Assistance Restructuring

U.S. Department of Housing & Urban Development
Administration History Project
December, 2000
DOCUMENT #43

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To:
HUD Mark-to-Market Team

Total number of pages: **9**

Account number: **97-099**

If you did not receive all pages, please call *Jen* at *617-720-5855*.

Dear Folks:

Some further explorations on loan underwriting, in this case the logical sequence of actions and the balancing act between policy and economic considerations.

Regards, David

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Mark-to-Market
Loan Origination Sequence

Summary

Mark-to-market must combine HUD real estate financing capacity (which is underwriting-driven) with public accountability (which assures good policy decisions), capacities which are not necessarily equally present in a candidate PAE.

To assure that PAE's have all the capabilities required to meet the Congressional objectives, HUD should consider encouraging teaming structures between publicly accountable bodies which may lack HUD experience (such as HFA's) and capable underwriters who lack public accountability (such as large FHA originator/ servicers). If HUD elects this option, it should examine Fannie Mae's Delegated Underwriting and Servicing (DUS) program, which provides an intriguing analog.

Objectives in Loan Restructuring

The need for high-quality underwriting. Inherent in the mark-to-market legislation is the necessity to strike a proper balance between *economics* (minimizing Federal costs up front and over the long term) and *policy* (preserving the housing and providing resident affordability).

Because policy decisions that stress resident affordability always cost money, these two objectives are usually at odds. The underwriting process must also balance up-front costs versus ongoing risk (of default) or obligation (in Section 8). These intrinsic tensions – which are unavoidable and are, indeed, at the core of mark-to-market – mean that reunderwriting these properties will always be difficult and will always demand the best talent that HUD can arrange to have brought to bear (via its definition of PAE's).

The importance of a well-designed procedure. Regardless of what entity assumes the PAE role and conducts the loan reunderwriting, HUD must design an efficient and reliable underwriting procedure.

The mark-to-market system must process about 4,000 properties over a five-year period (an average of 15-20 properties per state per year), so it must be *efficient*. And that processing will be, from a Federal perspective, *indirect* – HUD will be acting through designated Participating Administrative Entities (PAE's) whose performance it can only monitor, not compel. Thus the system should:

- Structure the process to reduce the risk of reprocessing by having critical policy decisions made *before* the financial underwriting.
- Have proper incentives and constraints that naturally direct PAE behavior toward Congressional objectives.
- Have clearly defined authority scope so that PAE's know precisely what they can do without HUD involvement and so that HUD's workload is minimized.
- Encourage consistent reporting.

A Logical Step-by-Step Sequence

Setting aside for the moment what entities should be PAE's and the rules by which they should be governed, mark-to-market should employ a five-step underwriting sequence:

Step 1. Admissions. Because properties are not automatically eligible for mark-to-market, all critical eligibility questions should be addressed initially, before any other steps are taken. These include the following:

1. *Rents above market*. Whether the intake here is rigorous or generous[1], a property should be admitted only if the PAE reasonably concludes that HUD could save money by lowering its rents.
2. *Bad property*. The legislation anticipates that some properties will be uneconomic to salvage, in which case the residents should be vouchered and the mortgage assigned.
3. *Disqualified owner*. Some owners of good properties will nevertheless be disqualified under Section 516(a) of the MAHRA Act. Since the property may yet process if it changes sponsors, this decision too should be made at admission.

[1] Recap favors a generous intake into mark-to-market, one that is structured to admit rather than exclude properties in all circumstances where the cursory determination of comparable rent might be difficult. Owners will want to *avoid* mark-to-market if they can: they risk losing control of the property, their operations will be scrutinized, and a successful emergence will come at the price of a thirty-year Use Agreement. A generous intake is appropriate because owners will be reluctant to seek restructuring on a property that does not genuinely need it, and because rents will be precisely determined at a later stage. Except for some processing inconvenience, there is no material downside to a generous rent-eligibility intake.

4. *Assistance-basing: property or resident?* Ultimately the PAE will elect whether to base assistance at the property (by continuing Section 8) or with the residents (via vouchers). At its root, this decision is less about economics, more about policy, so it too should be made *before* the reunderwriting[2].

5. *Use Agreement.* HUD may elect to specify Use Agreements comprehensively in the regulations, but if they must be decided on a property-by-property basis, the Use Agreement is probably best adjudicated here, since the Use Agreement's terms will figure in the underwriting.

Conclusion. These decisions relate predominantly to *policy* rather than economics.

Step 2. Underwriting. Once a property is admitted into mark-to-market, it must be reunderwritten, the core activity. This involves deciding:

1. *Rent levels* through market survey and assessment of comparable rents.
2. *Operating expenses* appropriate to the property after recapitalization. Inherent in this determination will be the PAE's adjudication whether to fund any non-housing services (e.g. computer learning centers, low cost day care, resident social/ recreational activities, medical or wellness support) that may now be provided in the current operating budget.
3. *Capital needs policy*, which mixes immediate needs, ongoing requirements, and sensible replacement reserve deposit levels.
4. *Operating coverage*[3] that will be applied to the resulting Net Operating Income[4] (NOI) to derive maximum debt service.
5. *Net Supportable Debt* (NSD) based on financing alternatives.

Finally, if the initial Net Supportable Debt is negative, or if the property is otherwise non-viable based on the established underwriting, the property got to Step 3, Exception Benefits; if not, it jumps to Step 4, Approval.

Conclusion. Activities in this step are almost exclusively *economic*; policy plays little role.

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[2] A credible argument can be made that the assistance-basing decision should be deferred until after the underwriting and exception-benefit steps, because the outcome of these financial components might change the assistance-basing decision. While acknowledging that this can happen, we think these instances will be rare – and the assistance-basing decision is both politically charged and a precondition of later decisions such as rent levels, rehab and repositioning. Thus we recommend accelerating the decision, while perhaps allowing an appeal in the exception-benefit step.

[3] Coverage ratios will likely vary depending on whether the property's assistance is property-based or resident-based and whether the reconstituted first mortgage is FHA-insured or uninsured. HUD could elect to specify ratios in regulations or to leave them to the PAE's discretion.

[4] Mark-to-market underwriting requires going beyond the typical percent-of-debt-service coverage ratios, because many reconstituted first mortgages will be in such small amounts that a coverage of (say) 15% of new debt service may be too little. Properties with high operating expense ratios (operating expenses as a percentage of local market rents) will need some minimum level of cash flow after debt service, perhaps measured by dollars per apartment per month, percent of operating budget, or some other formula beyond strict NOI.

Step 3. Exception benefits. The legislation further contemplates that some properties worth protecting will not be viable using the normal underwriting protocols; accordingly Congress established a series of exception benefits which may be applied at the PAE's discretion, including:

1. ***Budget-based rents up to 120% of FMR*** (up to 20% of any particular PAE's jurisdiction[5]) for 'social asset' properties that are worth preserving but can pay no debt service at normal underwriting rents.
2. ***Rents above 120% of FMR*** (with HUD consent) for up to 5% of any PAE's inventory.

Conclusion. These activities are predominantly policy conclusions that are permitted to override the basic underwriting analysis.

Step 4. Approval. Once the property has been reunderwritten, the Mortgage Restructuring and Rental Assistance Sufficiency Plan must be approved, which requires the PAE to conclude, *as HUD's agent*, that the plan represents a good use of Federal resources:

1. ***Section 8*** which will support the new rents.
2. ***Net claim on the FHA insurance fund*** which results from the debt re-sizing.
3. ***Rehab grants*** (if any) provided to the property.
4. ***New FHA insurance***, if that has been requested and is appropriate.
5. ***Approval of the Use Agreement*** to verify that it does not constrain property operations so that the underwriting will be infeasible.

Conclusion. These steps represent essentially a *policy ratification of an economic analysis*, so they fuse the two disciplines.

Step 5. Closing. When the Plan has been approved, the transaction must be closed; which includes predominantly mechanical activities:

1. The old loan must be settled and the reconstituted first mortgage put in place, either via a Partial Payment of Claim (PPC), an assignment/ reassignment, or a full claim and new (insured or uninsured) mortgage origination.
2. The soft second must be put in place.
3. The reconstituted first mortgage may have to be sold (unless the restructuring is accomplished via PPC). Selling the loan will be trivial if it has FHA insurance, possibly quite difficult otherwise.
4. The Use Agreement must be recorded.

Conclusion. These steps are almost purely *mechanical*, although they require a high degree of HUD programmatic and mortgage knowledge, and benefit from processing efficiencies and experience.

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[5] Section 514(g)(2) of the MAHRA Act.

Finally, once the transaction is closed, a sixth step will be required:

Step 6. Implementation/ monitoring. Mark-to-market recapitalizations are not self-executing. They put in place a new operating and affordability paradigm expected to last for thirty years, and with significant built-in adjustments (e.g. payments on the soft second, rent increase implementation via the Operating Cost Adjustment Factor (OCAF), and contingent enforcement remedies such as accelerating the soft second). Whatever entity closes the recapitalization must put in place the organizations and procedures to accomplish these tasks:

1. *Monitor policy compliance* with the Use Agreement.
2. *Administer Section 8* if it is property-based, and possibly even if it is resident-based.
3. *Asset manage operations and collect soft second mortgage payments* as generated by cash flow.
4. *Assess the balance between the demands of maintenance and finance.* Should the property encounter operating difficulties, the owner may have to choose between reinvesting in the property (risking financial default, hopefully only temporary) or funding debt service (risking physical deterioration). Neither choice is categorically correct, so the asset manager must temper the government's financial objectives with sound real estate judgment.
5. *Enforce* if the owner breaches the Use Agreement or the property otherwise falls out of compliance.

Conclusion. These functions are predominantly *economic*.

Organizational Implications

The loan reunderwriting protocol outlined above has significant implications for how HUD should structure the functions and the organizational attributed to be required of PAE's.

1. **The skills required differ substantially from stage to stage**. As the following chart reveals, skills required to handle a property change as it moves through the restructuring:

Step	*Dominant skills*
1. Admissions	Policy
2. Underwriting	Economics
3. Exception benefits	Policy informed by economics
4. Approval	Policy
5. Closing	Economics and mechanics
6. Implementation	Economics

2. **Economics has to be integrated with policy**. Mark-to-market is neither a purely economic restructuring not a purely policy decision. Economics and policy are explicitly brought together in exception benefits and in loan approval but are implicitly connected throughout. To

be capable, a PAE must have *both* a strong policy orientation *and* demonstrated capability to underwrite HUD properties.

3. Experience with HUD properties matters. The legislation generally anticipates that most PAE's will be the respective state housing finance agencies (HFA's) if they are qualified, but also allows for other entities (non-profits first, then for-profits) to be qualified as PAE's. Further, the legislation posits that many PAE's may need to augment their capacity in that it encourages HFA's to form teams[6].

Tax credit allocation, a significant source of HFA multifamily experience over the last decade, is not by itself an underwriting function. Not all HFA's or other candidate PAE's will have extensive experience with multifamily loan underwriting, and of those with apartment experience, not all have worked with family properties, especially those without property-based Section 8. Few prospective PAE's have extensive knowledge of the HUD portfolio or experience working within HUD guidelines.

All of these factors suggest that many PAE's will be receptive to subcontracting underwriting or HUD-intensive functions, while retaining control of the policy decisions. This will be especially true if HUD (as it should) fully implements the statutory instruction to set a high standard of PAE's based on their "demonstrated experience with and capacity for[7]" HUD multifamily restructuring

4. Existing FHA loan servicers may be logical subcontractors. Existing FHA loan servicers have both underwriting capacity and experience with these properties, attributes which make them logical subcontractors or partners for PAE's.

5. The Fannie Mae DUS approach offers an intriguing potential analog for PAE qualification and monitoring. Fannie Mae DUS has been an enormously successful paradigm[8] based on the principles of rigorous qualification of lenders, lender/ originator financial commitments, standardized loan programs with broad potential for innovation by approved DUS lenders, and limited experimentation in specialized DUS pilot programs.

[6] For instance, the definition of Participating Administrative Entity states (Section 512(10)) that, "The term 'participating administrative entity' means a public agency (including a State housing finance agency or a local housing agency), a non-profit organization, or any other entity (including a law firm or an accounting firm) *or a combination of such entities*, that meets the requirements under Section 513(b)," which in turn states, "*Partnerships*. For the purposes of any participating administrative entity applying under this subsection, participating administrative entities *are encouraged to develop partnerships with each other and with nonprofit organizations*, if such partnerships will further the participating administrative entity's ability to meet the purposes of this Act."

[7] Section 513(b)(1) of the MAHRA Act.

[8] In 1997 Fannie Mae originated $68.7 billion in mortgage purchase commitments. The mark-to-market program will likely generate between $4 and $6 billion in new reconstituted first mortgages.

Organizational Questions

1. *Should HUD require PAE candidates to have capacity in place before designation?* Both Fannie Mae DUS and designee approval under the FY 96 and FY 97 demonstrations have been predicated on capacity in place before any authority is granted.
2. *If PAE's form teams that involve for-profit firms as subcontractors, should a publicly accountable entity retain control over all the policy decisions?* The legislation clearly anticipates that public entities will be in charge[9].
3. *If PAE's form teams, how can HUD assure proper internal communication, financial discipline, and policy orientation?*
4. *Should PAE's or PAE subcontractors have financial incentives tied to sound long-term underwriting?* Although the legislation precludes for-profit entities from having an equity interest in the restructuring[10], subcontracting functions on a fee-for-service basis would go against a core fundamental principle of DUS, granting authority proportionately as the underwriter takes financial risk.
5. *How can HUD encourage efficiency and standardization among loan executions while simultaneously allowing PAE's flexibility to innovate on financial restructurings?* In other contexts (e.g. Fannie Mae DUS), the program specifies form documents (e.g. note, mortgage, soft second, and Use Agreement) and discourages exceptions to documentary provisions.
6. *How should OMHAR facilitate comparisons among PAE's and rapid sharing of best practices and practical experience?* The DUS system is strong in part because Fannie Mae provides rapid feedback among underwriters.

Conclusions

1. HUD should establish high standards among PAE's.
2. To assure that prospective PAE's have capacity in place before designation, HUD should encourage and facilitate teaming or subcontracting arrangements.
3. If teams are formed between public entities (such as HFA's) and private entities (such as FHA underwriters or financial specialists), the public entity should retain control over policy decisions but be allowed to subcontract underwriting and processing functions to capable private entities.
4. Among its top priorities, OMHAR should establish a strong internal communications network so that best practices and learning curve experiences can be quickly shared among PAE's.

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[9] Section 513(b)(7)(A) requires for-profit entities that are designated as PAE's to enter into a partnerships with public-purpose entities.
[10] Section 513(b)(7)(B).

Mark-to-Market
5+1 Step Loan Origination Sequence

Step	*Decisions*
1. Admissions	• Bad property • Bad owner • Property-based versus vouchers • Use Agreement
2. Underwriting	• Establish rents • Establish operating expenses • Decide capital policy (rehab, replacement reserve deposits) • Select suitable coverage ratio • Initial loan sizing – are exception benefits required?
3. Exception benefits	• Budget-based rents • Rents above 120% of FMR • Permit appeals of the assistance-basing decision
4. Approval	• Accept rents • Accept debt re-sizing • Bestow rehab • Bestow FHA insurance (if needed) on reconstituted first mortgage
5. Closing	• Restructure financing, place new soft second on property • Sell reconstituted first mortgage • Record Use Agreement
6. Implementation	• Monitor policy compliance • Administer Section 8 • Monitor soft second payments

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Mark-to-Market Second Mortgages
Illustrative Payoff Sensitivity Analysis

Financial Analysis

Attached are three scenarios illustrating the mechanics of mark-to-market restructuring using a representative range of potential second mortgages. Each scenario is presented via a two-page spreadsheet which shows (1) the underlying assumptions, (2) re-sizing of the new first mortgage and the resulting second mortgage, and (3) ongoing operations and repayment of the second mortgage at or before maturity.

As the scenarios show, the owner's ability to pay off the second mortgage at or before maturity is directly related to the second mortgage's size at inception:

	Base case	*High rents*	*Low rents*
Second mortgage relative to current HUD loan	49%	32%	74%
Remaining second mortgage balance at maturity as a percentage of *original* second mortgage balance	37%	0%	102%
Can second mortgage be paid off via a refinancing?	Yes	Yes From operations	No

As shown in the first scenario, the second mortgage created in the base case is substantially reduced during the holding period as a result of applying 75% of the cash flow; the remainder is paid off by an assumed refinancing of the entire property at second mortgage maturity. When the loan is smaller, as in the second case, 75% of the cash flow from operations can pay the loan off more quickly, and indeed in the second scenario the loan is fully repaid by 2014, five years before maturity.

Conversely, when the second mortgage is high, not only is it a larger amount, but there is also less cash flow available as debt service – as a result, the loan has a large balloon balance and it cannot be paid off at maturity.

Of course, the determination of whether a particular loan is reasonably likely to be repaid is a facts-and-circumstances issue which varies with each property. Thus the proposed ruling would address *only* the debt characteristics and the availability of the Section 7872 exemption, not the valuation question.

Simplifying Assumptions

Each new first mortgage will be re-sized based on underwriting criteria established either by HUD or by the PAE's. These underwriting assumptions affect the calculations, but for simplicity, our examples use the following basic assumptions:

Element	*Assumption*	*Explanation*
Debt service coverage	125%	*Debt service coverage* is the ratio between property Net Operating Income (NOI) and maximum debt service; the excess over 100% represents the additional cash flow 'coverage' that the lender has to assure debt service is fully paid. The lower the coverage, the greater the loan ... but the riskier it is. FHA-insured loans are typically originated with 110% coverage. Conventional loans range from 120% to 130%.
Debt service constant	9.67%	The *debt service constant* is the level periodic payment expressed as a percentage of the loan's principal balance. The constant used in the projection reflects the effective payment on the original Section 221(d)(4) loan, which now has 20 years remaining.
Second mortgage interest rate	1.0%	The *second mortgage interest rate* is stipulated by the statute to be less than the Applicable Federal Rate (AFR). It will be stipulated by HUD in its regulations, and is expected to be 0% or 1%. A 1% rate is shown, mainly to illustrate interest accrual and paydown during the holding period.
Second mortgage payments	75%	*Second mortgage payments* are stipulated in the statute to be 75% or more of the net cash available after payment of debt service on the reconstituted first mortgage. A 75% share is shown not only to illustrate the cash flow even at the lowest level of HUD participation, but also because allowing the owner 25% provides a strong financial incentive that should actually enhance overall collectibility on the second mortgages.

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1 Assumptions

Second mortgage equals *49% of current loan*

Variables in *shaded italics*

Timing

1999 Year restructuring accomplished

Property configuration and current operations

125 Apartments in property

$797 Current Sec. 8 rent per apartment (135% of FMR)
$590 Section 8 Fair Market Rent (FMR)
$531 Local market rent (or *90%* of FMR)
4,200 Annual operating expenses (inc. reserves) per apartment

Ongoing operations after mark-to-market

3.0% Annual increase in rents
3.5% Annual increase in expenses

Current HUD mortgage financing

$35,000 unpaid principal balance (UPB), Section 221d4 loan
7.50% interest rate on HUD first mortgage loan
20 years remaining on HUD first mortgage (matures 2019
12 payments per year
3,383 annual debt service payments required now
(equal to 9.67% of unpaid principal balance)

Loan restructuring in mark-to-market

125% Debt service coverage ratio on new first mortgage
1% Interest rate on new second mortgage
75% Percent of cash flow applied to new second mortgage

2 Underwriting and Loan Re-Sizing

Description		Current Section 8 contract	*After mark-to-market*	
Average monthly rent per apartment		$797	$531	
Annual rental income		1,195,500	796,500	
Less total operating expenses (	$4,200 per apt)	525,000	525,000	
Net Operating Income (NOI)		670,500	271,500	
Divide by debt service coverage ratio			125%	
Maximum total debt service			217,200	
Debt service constant (percent of mortgage principal)			9.67%	
Reconstituted first mortgage			2,246,792	51% of current loan
Required new second mortgage			*2,128,208*	49% of current loan
Original HUD mortgage before restructuring (	$35,000 per apt)		4,375,000	

For convenience, rehab is assumed funded with a grant from HUD and an owner contribution, hence rehab does not affect the underwriting.
For simplicity of presentation, operating expenses after restructuring are assumed to be unchanged from before restructuring.

Year	3.0% Income	3.5% Expenses	Net Operating Income (N.O.I.)	Debt service on first mortgage	Net cash available before second	75% of cash to second	25% of cash to owner	Beginning balance	1.0% Interest accrued	Payments made	Ending balance
1999	796,500	525,000	271,500	217,200	54,300	40,725	13,575	2,128,208	21,282	(40,725)	2,108,766
2000	820,395	543,375	277,020	217,200	59,820	44,865	14,955	2,108,766	21,088	(44,865)	2,084,988
2001	845,007	562,393	282,614	217,200	65,414	49,060	16,353	2,084,988	20,850	(49,060)	2,056,778
2002	870,357	582,077	288,280	217,200	71,080	53,310	17,770	2,056,778	20,568	(53,310)	2,024,035
2003	896,468	602,450	294,018	217,200	76,818	57,614	19,205	2,024,035	20,240	(57,614)	1,986,662
2004	923,362	623,535	299,826	217,200	82,626	61,970	20,657	1,986,662	19,867	(61,970)	1,944,559
2005	951,063	645,359	305,704	217,200	88,504	66,378	22,126	1,944,559	19,446	(66,378)	1,897,627
2006	979,595	667,947	311,648	217,200	94,448	70,836	23,612	1,897,627	18,976	(70,836)	1,845,767
2007	1,008,982	691,325	317,658	217,200	100,458	75,343	25,114	1,845,767	18,458	(75,343)	1,788,882
2008	1,039,252	715,521	323,731	217,200	106,531	79,898	26,633	1,788,882	17,889	(79,898)	1,726,872
2009	1,070,429	740,564	329,865	217,200	112,665	84,499	28,166	1,726,872	17,269	(84,499)	1,659,642
2010	1,102,542	766,484	336,058	217,200	118,858	89,144	29,715	1,659,642	16,596	(89,144)	1,587,095
2011	1,135,619	793,311	342,308	217,200	125,108	93,831	31,277	1,587,095	15,871	(93,831)	1,509,135
2012	1,169,687	821,077	348,610	217,200	131,410	98,558	32,853	1,509,135	15,091	(98,558)	1,425,669
2013	1,204,778	849,815	354,963	217,200	137,763	103,322	34,441	1,425,669	14,257	(103,322)	1,336,603
2014	1,240,921	879,558	361,363	217,200	144,163	108,122	36,041	1,336,603	13,366	(108,122)	1,241,847
2015	1,278,149	910,343	367,806	217,200	150,606	112,955	37,652	1,241,847	12,418	(112,955)	1,141,311
2016	1,316,493	942,205	374,288	217,200	157,088	117,816	39,272	1,141,311	11,413	(117,816)	1,034,908
2017	1,355,988	975,182	380,806	217,200	163,606	122,705	40,902	1,034,908	10,349	(122,705)	922,553
2018	1,396,668	1,009,313	387,354	217,200	170,154	127,616	42,539	922,553	9,226	(127,616)	804,162
2019	1,438,568	1,044,639	393,928								

Payoff Analysis of Second Mortgage At Maturity

The second mortgage balloons in 2019 when the first mortgage is fully amortized.
At that time the second mortgage has a remaining balance of $804,162.
Assuming that the owner refinances with a new conventional first mortgage, the property's NOI of $393,928
would support a new first mortgage of $3,495,683 at conventional rates and terms (Note 1), or
The projected refinanceable new mortgage is 435% of the remaining second mortgage.

This is enough to pay off the second mortgage at its maturity.

Note 1 Conventional rates at refinancing are assumed to be *8.25%* interest, *30* year term, *125%* coverage

1 Assumptions

Second mortgage equals *32% of current loan*

Variables in *shaded italics*

Timing

1999 Year restructuring accomplished

Property configuration and current operations

125 Apartments in property

$797 Current Sec. 8 rent per apartment (135% of FMR)
$590 Section 8 Fair Market Rent (FMR)
$590 Local market rent (or *100%* of FMR)
4,200 Annual operating expenses (inc. reserves) per apartment

Ongoing operations after mark-to-market

3.0% Annual increase in rents
3.5% Annual increase in expenses

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Less total operating expenses (	$4,200 per apt)	525,000	525,000	
Net Operating Income (NOI)		670,500	360,000	
Divide by debt service coverage ratio			125%	
Maximum total debt service			288,000	
Debt service constant (percent of mortgage principal)			9.67%	
Reconstituted first mortgage			2,979,171	68% of current loan
Required new second mortgage			***1,395,829***	*32%* of current loan
Original HUD mortgage before restructuring (	$35,000 per apt)		4,375,000	

For convenience, rehab is assumed funded with a grant from HUD and an owner contribution, hence rehab does not affect the underwriting.
For simplicity of presentation, operating expenses after restructuring are assumed to be unchanged from before restructuring.

3 Ongoing Operations After Mark-to-Market *Second mortgage equals* *32% of current loan*

Year	3.0% Income	3.5% Expenses	Net Operating Income (N O I)	Debt service on first mortgage	Net cash available before second	75% of cash to second	25% of cash to owner	Beginning balance	1.0% Interest accrued	Payments made	Ending balance
1999	885,000	525,000	360,000	288,000	72,000	54,000	18,000	1,395,829	13,958	(54,000)	1,355,787
2000	911,550	543,375	368,175	288,000	80,175	60,131	20,044	1,355,787	13,558	(60,131)	1,309,214
2001	938,897	562,393	376,503	288,000	88,503	66,378	22,126	1,309,214	13,092	(66,378)	1,255,928
2002	967,063	582,077	384,987	288,000	96,987	72,740	24,247	1,255,928	12,559	(72,740)	1,195,748
2003	996,075	602,450	393,626	288,000	105,626	79,219	26,406	1,195,748	11,957	(79,219)	1,128,486
2004	1,025,958	623,535	402,422	288,000	114,422	85,817	28,606	1,128,486	11,285	(85,817)	1,053,954
2005	1,056,736	645,359	411,377	288,000	123,377	92,533	30,844	1,053,954	10,540	(92,533)	971,961
2006	1,088,438	667,947	420,492	288,000	132,492	99,369	33,123	971,961	9,720	(99,369)	882,312
2007	1,121,092	691,325	429,767	288,000	141,767	106,325	35,442	882,312	8,823	(106,325)	784,810
2008	1,154,724	715,521	439,203	288,000	151,203	113,402	37,801	784,810	7,848	(113,402)	679,255
2009	1,189,366	740,564	448,802	288,000	160,802	120,601	40,200	679,255	6,793	(120,601)	565,447
2010	1,225,047	766,484	458,563	288,000	170,563	127,922	42,641	565,447	5,654	(127,922)	443,179
2011	1,261,798	793,311	468,487	288,000	180,487	135,366	45,122	443,179	4,432	(135,366)	312,245
2012	1,299,652	821,077	478,575	288,000	190,575	142,932	47,644	312,245	3,122	(142,932)	172,436
2013	1,338,642	849,815	488,827	288,000	200,827	150,620	50,207	172,436	1,724	(150,620)	23,540
2014	1,378,801	879,558	499,243	288,000	211,243	158,432	52,811	23,540	235	(23,775)	0
2015	1,420,165	910,343	509,823	288,000	221,823	166,367	55,456	0	0	0	0
2016	1,462,770	942,205	520,565	288,000	232,565	174,424	58,141	0	0	0	0
2017	1,506,653	975,182	531,471	288,000	243,471	182,604	60,868	0	0	0	0
2018	1,551,853	1,009,313	542,540	288,000	254,540	190,905	63,635	0	0	0	0
2019	1,598,408	1,044,639	553,769								

Payoff Analysis of Second Mortgage At Maturity

The second mortgage balloons in 2019 when the first mortgage is fully amortized.
At that time the second mortgage has a remaining balance of $0 .
It has been fully repaid through normal operations.

The second mortgage is fully repaid before maturity.

Note 1 Conventional rates at refinancing are assumed to be 8.25% interest, 30 year term, 125% coverage.

1 Assumptions

Variables in *shaded italics*

Timing

1999 Year restructuring accomplished

Property configuration and current operations

125 Apartments in property

$797 Current Sec. 8 rent per apartment (135% of FMR)
$590 Section 8 Fair Market Rent (FMR)
$443 Local market rent (or *75%* of FMR)
4,200 Annual operating expenses (inc. reserves) per apartment

Ongoing operations after mark-to-market

3.0% Annual increase in rents
3.5% Annual increase in expenses

Second mortgage equals *74% of current loan*

Current HUD mortgage financing

$35,000 unpaid principal balance (UPB), Section 221d4 loan
7.50% interest rate on HUD first mortgage loan
20 years remaining on HUD first mortgage (matures 2019
12 payments per year
3,383 annual debt service payments required now
(equal to 9.67% of unpaid principal balance)

Loan restructuring in mark-to-market

125% Debt service coverage ratio on new first mortgage
1% Interest rate on new second mortgage
75% Percent of cash flow applied to new second mortgage

2 Underwriting and Loan Re-Sizing

Description		Current Section 8 contract	*After* mark-to-market	
Average monthly rent per apartment		$797	$443	
Annual rental income		1,195,500	664,500	
Less total operating expenses (	$4,200 per apt)	525,000	525,000	
Net Operating Income (NOI)		670,500	139,500	
Divide by debt service coverage ratio			125%	
Maximum total debt service			111,600	
Debt service constant (percent of mortgage principal)			9.67%	
Reconstituted first mortgage			1,154,429	26% of current loan
Required new second mortgage			***3,220,571***	*74%* of current loan
Original HUD mortgage before restructuring (	$35,000 per apt)		4,375,000	

For convenience, rehab is assumed funded with a grant from HUD and an owner contribution, hence rehab does not affect the underwriting.
For simplicity of presentation, operating expenses after restructuring are assumed to be unchanged from before restructuring.

3 Ongoing Operations After Mark-to-Market *Second mortgage equals* *74% of current loan*

Year	3.0% Income	3.5% Expenses	Net Operating Income (N.O.I)	Debt service on first mortgage	Net cash available before second	75% of cash to second	25% of cash to owner	Beginning balance	1.0% Interest accrued	Payments made	Ending balance
1999	664,500	525,000	139,500	111,600	27,900	20,925	6,975	3,220,571	32,206	(20,925)	3,231,852
2000	684,435	543,375	141,060	111,600	29,460	22,095	7,365	3,231,852	32,319	(22,095)	3,242,075
2001	704,968	562,393	142,575	111,600	30,975	23,231	7,744	3,242,075	32,421	(23,231)	3,251,265
2002	726,117	582,077	144,040	111,600	32,440	24,330	8,110	3,251,265	32,513	(24,330)	3,259,447
2003	747,901	602,450	145,451	111,600	33,851	25,388	8,463	3,259,447	32,594	(25,388)	3,266,654
2004	770,338	623,535	146,802	111,600	35,202	26,402	8,801	3,266,654	32,667	(26,402)	3,272,918
2005	793,448	645,359	148,089	111,600	36,489	27,367	9,122	3,272,918	32,729	(27,367)	3,278,281
2006	817,251	667,947	149,305	111,600	37,705	28,278	9,426	3,278,281	32,783	(28,278)	3,282,786
2007	841,769	691,325	150,444	111,600	38,844	29,133	9,711	3,282,786	32,828	(29,133)	3,286,480
2008	867,022	715,521	151,501	111,600	39,901	29,926	9,975	3,286,480	32,865	(29,926)	3,289,420
2009	893,032	740,564	152,468	111,600	40,868	30,651	10,217	3,289,420	32,894	(30,651)	3,291,663
2010	919,823	766,484	153,339	111,600	41,739	31,304	10,435	3,291,663	32,917	(31,304)	3,293,275
2011	947,418	793,311	154,107	111,600	42,507	31,880	10,627	3,293,275	32,933	(31,880)	3,294,327
2012	975,841	821,077	154,764	111,600	43,164	32,373	10,791	3,294,327	32,943	(32,373)	3,294,898
2013	1,005,116	849,815	155,301	111,600	43,701	32,776	10,925	3,294,898	32,949	(32,776)	3,295,071
2014	1,035,269	879,558	155,711	111,600	44,111	33,083	11,028	3,295,071	32,951	(33,083)	3,294,938
2015	1,066,327	910,343	155,985	111,600	44,385	33,289	11,096	3,294,938	32,949	(33,289)	3,294,599
2016	1,098,317	942,205	156,113	111,600	44,513	33,384	11,128	3,294,599	32,946	(33,384)	3,294,161
2017	1,131,267	975,182	156,085	111,600	44,485	33,364	11,121	3,294,161	32,942	(33,364)	3,293,739
2018	1,165,205	1,009,313	155,892	111,600	44,292	33,219	11,073	3,293,739	32,937	(33,219)	3,293,457
2019	1,200,161	1,044,639	155,522								

Payoff Analysis of Second Mortgage At Maturity

The second mortgage balloons in 2019 when the first mortgage is fully amortized.
At that time the second mortgage has a remaining balance of $3,293,457 .
Assuming that the owner refinances with a new conventional first mortgage, the property's NOI of $155,522
would support a new first mortgage of $1,380,085 at conventional rates and terms (Note 1), or
The projected refinanceable new mortgage is 42% of the remaining second mortgage.

This is <u>not enough</u> to pay off the second mortgage at its maturity.

Note 1 Conventional rates at refinancing are assumed to be 8.25% interest, 30 year term, 125% coverage.

4/18/98

Participants in a Mark-to-Market Restructuring

Owner

A single-purpose entity formed 20 years ago specifically to own this property, almost always as a limited partnership with a general partner and many limited partners.

General partner. Controls the property and makes all critical decisions. Usually a real estate development company, usually specializing in affordable housing. Likely has an affiliated property management company. *Principal motivation:* To retain ownership of an operationally viable property after restructuring, and at all costs to avoid litigation from investors. Strong predisposition for continuing property-based Section 8 assistance.

Management agent. Not technically part of the owner, but most of the time an affiliate of the general partner. Provides property management subject to HUD regulations and for a HUD-approved management fee. *Principal motivation:* To retain the property management contract.

Limited partners. Individuals who acquired their interests as tax shelters. Usually scattered throughout the country. About one-quarter are now held by estates. Have no operational control over the property but have a vote on major decisions such as sale, refinancing, or mark-to-market recapitalization. *Principal motivation:* To avoid Federal income tax at the restructuring and avoid foreclosure thereafter.

Mortgagee

An investing lender who bought the mortgage originally, and a mortgage loan servicer who administers the paperwork and communicates with the investing lender. Because FHA-insured loans are frequently bought and sold, investing lenders change often but servicers tend to remain the same throughout.

Mortgage loan servicer. A mortgage banker (who may have originated the loan initially) now responsible for routing payments to the investing lender, handling all mortgagee paperwork, and protecting the mortgagee's interests. Because mortgage servicing is largely electronic, it has enormous economies of scale and there are now a half-dozen major servicers (e.g. GMAC, Reilly Mortgage, WMFG) who handle 75% or more of the inventory. Servicers are highly knowledgeable about HUD rules and affordable housing properties, but feel tightly constrained in their activities by their fiduciary duty to their investing lenders. *Principal motivation:* To keep servicing responsibility and have the investing lenders satisfied with their performance.

Investing lender. Usually a large financial institution or pension fund who bought the mortgage simply for yield. Has neither knowledge of nor interest in affordable housing. Wants debt service payments and depends on the loan servicer to handle all paperwork, route funds appropriately, and protect its interests. *Principal motivation:* Maximize cash inflows and maintain yield or reset interest rates to market.

Participating Administrative Entity (PAE)

The most critical participant in the mark-to-market process, responsible for underwriting the loan restructuring. The ultimate gatekeeper making all the critical decisions, including (i) Section 8 (property or vouchers), (ii) new rent levels, (iii) rehab and renovation, (iv) new first mortgage loan sizing. Because PAE's must balance policy and economic considerations, Congress determined that they must be public entities; most PAE's will be state housing finance agencies (HFA's).

Once first mortgage loans are re-sized, they will probably have to be sold. Thus, ideally the PAE would have its own internal loan origination capacity. For this and other reasons, Congress expects many PAE's will be teaming entities where a public entity is in charge but supplements its skills with private-sector mortgage bankers, appraisers, capital needs assessors, or other professionals.

Principal motivations: To protect housing and affordability in their geographic areas. To accomplish the restructuring without taking on ongoing liability or exposure. To avoid political controversy.

OMHAR

The Office of Multifamily Housing Assistance Restructuring (OMHAR) is a newly created office within HUD whose director, appointed by the President, reports to the Secretary but is independent. OMHAR is charged with putting PAE's into place, monitoring their performance, and replacing PAE's as necessary. In addition, HUD or OMHAR have authority to waive various statutory provisions and ceilings for good cause as specified in the statute.

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hud NEWS

Department of Housing and Urban Development – Andrew Cuomo, Secretary
Office of Public Affairs, Washington, DC 20410

HUD No. 00-211
(202) 708-0685/708-0001, ext. 3779
http://www.hud.gov/news.html

FOR RELEASE
Wednesday
August 9, 2000

OMHAR SIGNS 3 NEW PAES, INSTITUTES CHANGES TO STREAMLINE THE MARK-TO-MARKET PROGRAM AND INCREASE PRODUCTION

WASHINGTON – The Department of Housing and Urban Development today announced that three more private housing finance agencies have signed contracts to reduce above-market Section 8 rents at privately owned, low-income apartment developments participating in HUD's Mark-to-Market program.

The three new firms are Foley & Judell, New Orleans, LA; NW Financial Group, Jersey City, NJ; and the Siegel Group, Austin, TX. The addition of the three brings the total number of private housing finance firms serving as Participating Administrative Entities (PAEs) to nine.

At the same time, Colorado Housing Finance Authority and Kitsap County Consolidated Housing Authority, which came into M2M as public PAEs, have signed new contracts that will enable them to operate as private PAEs when doing deals in areas outside of their current state jurisdictions.

Under Mark-to-Market, excessively high Section 8 rents are marked down to levels that are more in line with prevailing market rents. In Cleveland, OH, for example, the HUD-approved average rent for a subsidized apartment is $620, compared with a rent of $487 for the same type of apartment on the private market.

HUD estimates that Mark-to-Market will produce substantial savings in the Project-Based Section 8 program in the years to come, while preserving affordable housing for thousands of low-income families. OMHAR has already approved almost 300 transactions, representing a combined net Section 8 savings over 20 years of around $300 million. Another 1,250 deals, which represent an estimated savings of $1.6 billion, are in OMHAR's pipeline.

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"We are very excited about having these firms join us in this important endeavor," said Ira Peppercorn, director of HUD's Office of Multifamily Housing Assistance Restructuring (OMHAR). "Each is uniquely qualified to help this Department create a more financially sound, market oriented rental assistance program."

OMHAR also has implemented a number of initiatives that will enable it to streamline office procedures and increase the number of transactions being processed:

- A newly appointed director of production will work to ensure greater consistency, quality, and accountability in OMHAR's efforts to accomplish its strategic objectives, and work closely with the office's four regional directors and their staffs to complete more restructuring transactions.

- A "war room" has been created in OMHAR's Washington, D.C., office to provide deal specific technical assistance to PAEs and speed up the production of negotiated restructuring commitments with Section 8 project owners whose properties are in the M2M program.

- "Swat teams" have been created to provide PAEs that have the largest number of transactions with underwriting, deal point, and specific advice and guidance designed to resolve any issues preventing the processing of the majority of deals currently in OMHAR's pipeline by the end of this year.

- OMHAR's Operating Procedures Guide, which outlines specific steps PAEs must follow when processing transactions, is being significantly reduced and changed in ways that simplify the program, address issues that have arisen since the program began, and include information not available in the earlier version.

In addition, OMHAR is assigning owners with 10 or more M2M properties to one PAE in an effort to achieve faster and more streamlined deal processing, and developing a package of incentives to make the program more attractive to owners whose properties are currently undergoing restructuring as well as those not yet in the program.

"The changes we have implemented will help simplify and improve the Mark-to-Market program in ways that not only add greater efficiency, but also make sense," Peppercorn said. "We have listened to the recommendations of PAEs, lenders, owners, and key HUD staff, and designed a program that will ensure that we accomplish our mission while recognizing and meeting the needs of our partners in this process."

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hud NEWS

Department of Housing and Urban Development – Andrew Cuomo, Secretary
Office of Public Affairs, Washington, DC 20410

HUD No. 00-239
(202) 708-0685/708-0001, ext. 3779
http://www.hud.gov/news.html

FOR RELEASE
Monday
September 11, 2000

HUD UNVEILS NEW PACKAGE OF INITIATIVES FOR PROPERTY OWNERS PARTICIPATING IN THE MARK-TO-MARKET PROGRAM

WASHINGTON – The Department of Housing and Urban Development today unveiled a package of program reforms that will make it more attractive for owners of HUD subsidized, Section 8 properties to participate in the Mark-to-Market (M2M) program, and for potential non-profit purchasers.

The initiatives, said Ira Peppercorn, director of the Office of Multifamily Housing Assistance Restructuring (OMHAR), were the result of OMHAR's outreach to program stakeholders over the past few months. This outreach, said Peppercorn, confirmed the existence of several barriers to participation.

The initiatives, which remove these barriers, will be available to owners who stay in the program. In addition, OMHAR intends to use its statutory authority to modify or forgive outstanding debt in an effort to encourage M2M property purchases by independent community-based, non-profit M2M purchasers that have been endorsed by residents.

Under the new package, owners and other qualified purchasers will receive monthly Capital Recovery Payments, which provide a reasonable return on the investment they must make to cover their portion of required rehabilitation and transaction costs. Additional financial initiatives include: incentive performance fees, up to 3 percent of effective gross income, will be paid to owners who demonstrate sound management practices; 100 percent of the initial deposit to a property's replacement reserve can be financed; and 80 percent of certain reasonable acquisition transaction costs can be financed.

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The new package also includes a number of procedural reforms designed to improve communication between OMHAR, owners and purchasers. These include Web-based methods for better communicating the status of individual properties, and the status of OMHAR's Mark-to-Market portfolio, and improvements to the process for communicating OMHAR's conclusions to property owners and purchasers.

In addition, long-term above-market housing assistance payment contracts expiring after September 30, 2001, will remain in place, with the above-market portion being credited monthly; purchasers can receive a reasonable developer's fee; and part or all of the second mortgage can be forgiven when the purchaser of a M2M property is an independent non-profit that is community based and tenant endorsed.

"This package is the result of many conversations we've had with owners and key members of the housing industry," Peppercorn said. "We've been working for some time to put together a realistic, meaningful package of initiatives, within our statutory authority, that would make M2M a more attractive option for owners and others interested in purchasing M2M properties, and we're confident that we've done it."

Support for the new package of initiatives, Peppercorn said, has been enthusiastic among both for-profit and non-profit organizations.

Michael Rubinger, president and chief executive officer of Local Initiatives Support Corporation, said: "The Local Initiatives Support Corporation and its affiliated National Equity Fund and Community Development Trust greatly appreciate the leadership and cooperative spirit that the OMHAR team has brought to formulating these new policies. We believe these changes will enable CDCs and other non-profit organizations to help preserve affordable housing as a precious asset for our communities and the nation."

Denise Muha, executive director of the National Leased Housing Association, said: "OMHAR's initiatives will go a long way to address concerns expressed by owners, non-profits, processing agencies and lenders, and should remove a number of barriers to successful program participation."

Michael Bodaken, president of National Housing Trust, said: "These initiatives will, in our view, encourage legitimate non-profit organizations to consider purchasing Mark-to-Market properties. They will also significantly enhance the ability of non-profit organizations to undertake and complete the preservation of Section 8 properties."

Anthony S. Freedman, partner, Hawkins, Delafield and Wood, said: "I think the

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changes are helpful and smart. They respect the basic structures and requirements of the program, while removing some of the real world obstacles or annoyances that discourage participation. They will enable good owners to remain in the program."

OMHAR is strongly encouraging housing finance agencies serving as Participating Administrative Entities (PAEs) to meet with owners to discuss the specifics of particular deals, and requiring PAEs to provide owners with copies of appraisals, comparative analyses of owner submissions, and the PAE's conclusion on rents within 30 days of completion.

Other communication efforts include creating a system for 48-hour turn arounds on owner queries about their properties, requiring PAEs to provide owners with copies of the physical condition assessment (PCA) and the PAE's conclusions on repairs and reserves within 30 days of completion, as well as their analysis of the appraisal and PCA, and encouraging PAEs to accommodate owner requests for meetings to discuss appraisal results. OMHAR will create a HQ "hotline" to respond within 3 days to any owner who does not receive a timely response to a written appeal.

For a complete matrix of the owner initiative's package, or other information about the Mark-to-Market program, log onto OMHAR's Web site: www.hud.gov/omhar.

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hud NEWS

Department of Housing and Urban Development -- Andrew Cuomo, Secretary
Office of Public Affairs, Washington, DC 20410

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http://www.hud.gov/news.html

FOR RELEASE
9:30 a.m. Thursday
April 29, 1999

Congress Members Support Action

CUOMO ANNOUNCES STEPS TO AVERT LOSS OF AFFORDABLE HOUSING AND ISSUES NEW REPORT DETAILING RISKS TO SECTION 8 PROGRAM

WASHINGTON -- In a move that drew bipartisan Congressional support, Housing and Urban Development Secretary Andrew Cuomo today announced actions to preserve affordable housing for thousands of poor families around the country.

Among those joining Cuomo for the Capitol Hill announcement were: Congressman James A. Leach (IA), Chairman of the Committee on Banking and Financial Services; Congressman John J. LaFalce (NY), Ranking Member of the Committee on Banking and Financial Services; Senator John F. Kerry (MA), Ranking Member of the Banking Subcommittee on Housing and Transportation; Congressman Barney Frank (MA), Ranking Member of the Banking Subcommittee on Housing and Community Opportunity; Congressman Alan Mollohan (WV), Ranking Member of the House Appropriations Subcommittee on VA, HUD and Independent Agencies; House Banking Committee Members Bruce F. Vento (MN) and Michael E. Capuano (MA); and House Appropriations Committee Member Nancy Pelosi (CA).

"This is an important reform that will help protect families who need and deserve decent housing, at a fair cost to the American taxpayer," Cuomo said.

Cuomo also released a report that documents the magnitude of the risk to the Project-Based Section 8 Rental Assistance Program and lays out a set of principles to guide a more permanent, comprehensive solution to the problem. Titled *Opting In: Renewing America's Commitment to Affordable Housing*, the report quantifies the number and locations of subsidized units that are threatened by impending contract expirations.

Cuomo's announcements cover a two-pronged strategy:

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* HUD will take immediate steps to adjust its rental assistance payments to landlords under the Project-Based Section 8 Program. The Department will adjust outdated payment levels set 20 years ago that are below current market rents with new levels that reflect today's market conditions. The adjustments will be targeted to well-maintained and well-managed apartments that provide good housing for low-income families, giving landlords an incentive for remaining in the Section 8 Program.

* HUD will work with Congress to develop a long-term, comprehensive solution to preserve Section 8 properties. Key elements of the long-term solution proposed by HUD will include: 1) Adequate resources to preserve the best Section 8 properties. 2) Reforming Section 8 contract renewals to remove uncertainties about the future of subsidies for particular developments. 3) Ensuring greater resident protection through the availability of enhanced vouchers to enable more poor families to remain in their homes when landlords withdraw properties from the Section 8 Program.

The report released today points out that the Project-Based Section 8 Program now helps 1.4 million families around the nation afford good, safe housing. During the next five years, however, two-thirds of all Project-Based Section 8 contracts will expire, totaling almost 14,000 properties that contain 1 million subsidized housing units.

When contracts expire, both HUD and the owner can choose not to renew. The majority of properties remain in the program, but the latest data show that about 10 percent of owners "opt-out" and convert their developments into unsubsidized housing.

The report points out that 44 states have more than 50 percent of their Project-Based Section 8 units expiring in the next five years, and every state has more than 1,000 units expiring in the period.

The Section 8 Program includes two forms of subsidy: Tenant-Based and Project-Based. Both help low-income households rent privately owned housing units. Residents pay about 30 percent of their income for rent and HUD pays the rest.

The Tenant-Based Program provides vouchers that remain with the households that use them Families can take the subsidies to new rental housing if they decide to move. The Project-Based Program, on the other hand, provides subsidies that are tied to specific rental housing units.

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COMMENTS ON HUD's ACTION TO AVERT LOSS OF AFFORDABLE HOUSING

Congressman John J. LaFalce (NY): "I applaud Secretary Cuomo and HUD for taking the initiative to preserve our nation's stock of affordable housing, and to protect low-income seniors and families threatened with rent hikes and eviction. Now it is Congress's turn to build on this initiative by funding the Administration's proposal for 100,000 more rental vouchers."

Senator John F. Kerry (MA): "This is an important step to address a critical problem. I am extremely pleased that the Secretary has chosen to exercise his authority under the law to stem the loss of this critical affordable housing."

Congressman Barney Frank (MA): "I am very grateful to Secretary Cuomo and the Administration for using their legal authority to the fullest to prevent loss of affordable housing. I will work with my colleagues in Congress and with the Secretary to build on these steps."

Congressman Bruce F. Vento (MN): "I commend Secretary Cuomo today for stepping forward and responding to this problem. The federal government can work with state and local governments to preserve affordable housing. I will support and advance all proposals which attain the collaboration and cooperation envisioned in the Vento housing preservation legislation that will empower local communities with the resources to meet existing and future housing needs."

Congresswoman Nancy Pelosi (CA): "I commend HUD for taking this important step that recognizes the varied housing needs of both rural communities and high-cost rental markets. This new HUD policy will help to preserve affordable housing and to protect low-income residents, including seniors and families with children, from being displaced from their homes."

Senator Paul S. Sarbanes (MD): "This new policy is an investment in the well-being of citizens both within Maryland and across the country. Because affordable housing resources are becoming increasingly scarce, particularly in high-cost areas, HUD's decision will help tens of thousands of families around the country."

Senator Tom Harkin (IA): "In Iowa a large number of elderly tenants face losing their housing. These seniors unfortunately have little ability to find decent alternatives in their communities. Secretary Cuomo is correct in acting to prevent these people from losing their homes."

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Senator Dianne Feinstein (CA): "This plan will help protect a program vital to low-income families in metropolitan areas in California and the rest of the nation. We need to provide Section 8 participants with incentive to renew their Section 8 contracts, or we risk forcing hundreds of thousands of families out of their homes."

Willie L. Brown Jr., Mayor of San Francisco: "I applaud Secretary Cuomo for creating this emergency program as a first step in solving our affordable housing crisis. As the Chair of the Community Development and Housing Committee of the U.S. Conference of Mayors and as a mayor of a city with 9,200 at-risk units, I know that this issue is of critical importance. We cannot afford to lose any of our affordable housing stock or displace any of our low-income residents. I look forward to working closely with HUD and Congress to develop and implement a long-term comprehensive solution to this looming affordable housing crisis."

Jack Murray, President of the National Affordable Housing Management Association: "NAHMA is encouraged that HUD has recognized that there is a developing crisis with assisted housing owners opting out of the various Section 8 programs. We look forward to working with Congress and HUD to develop a long-term solution to prevent resident displacement, provide market based returns to owners, reduce regulatory burdens, and keep this vital segment of affordable housing available to low- and moderate-income residents."

Sheila Crowley, President of the National Low-Income Housing Coalition: "The National Low-Income Housing Coalition commends HUD and the Congress for coming together to begin to address the serious depletion of assisted rental housing that is affordable by very low-income people. Owners of this housing are leaving the assisted housing program at an alarming rate, jeopardizing the housing stability of thousands of households, many of whom are composed of elderly and disabled citizens. The need for federal action is urgent."

Chuck Edson, Counsel for the Institute for Responsible Housing Preservation: "HUD and Secretary Cuomo and concerned members of Congress should be commended for the direction they are taking in trying to avoid displacement of Section 8 tenants, especially the elderly, and we look forward to the specific details of the proposal."

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hud NEWS

Department of Housing and Urban Development – Andrew Cuomo, Secretary
Office of Public Affairs, Washington, DC 20410

HUD No. 99-117 FOR RELEASE
(202) 708-0685 Friday
http://www.hud.gov/news.html July 9, 1999

HUD AGREEMENTS WILL SAVE TAXPAYERS MILLIONS OF DOLLARS AND PRESERVE AFFORDABLE HOUSING FOR THOUSANDS OF FAMILIES IN 27 STATES

WASHINGTON – The Department of Housing and Urban Development has entered into agreements with housing finance agencies and private groups in 27 states and the District of Columbia that will save taxpayers millions of dollars and preserve affordable housing for thousands of low-income families.

HUD's Office of Multifamily Housing Assistance Restructuring (OMHAR) said today that it has entered into the portfolio restructuring agreements with 18 state or local housing finance agencies, along with three non-profit and private firms covering properties in nine additional states.

The 18 state or local housing finance agencies entering agreements are: **Jefferson County, AL; District of Columbia; Florida; Chicago; Kentucky; Louisiana; Anne Arundel and Montgomery Counties, MD; Missouri; New Hampshire; Ohio; Rhode Island; South Carolina; South Dakota; Tennessee; Washington State; Kitsap County, WA; and West Virginia.** Between the 18 state or local housing finance agencies, 196 mortgages will be restructured.

Development Corp

The private companies selected to assist with the restructuring include: First Housing, based in Tampa, FL; and Ontra, based in Austin, TX. First Housing and Ontra will restructure the debt on 54 properties located in **Alaska, Arkansas, Hawaii, Kansas, Mississippi, Montana, Nebraska, Nevada, and Wyoming.** No public agency in any of these states elected to participate in the program, and all of the contracts were competitively bid.

The contract agreements are part of an effort to preserve thousands of HUD-subsidized privately owned low-income apartment developments, said OMHAR Director Ira Peppercorn. OMHAR will oversee restructuring of the mortgages on the properties as rents are marked down to levels that are more in line with prevailing market rents. The program is known as Mark-to-Market.

HUD estimates that Mark-to-Market will produce substantial savings in the Project-Based Section 8 rental assistance program over the next five years, and more in years ahead, while preserving affordable housing for 850,000 people. Families in HUD's Section 8 Program pay 30 percent of their income toward rent, with HUD subsidies making up the difference.

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High rental subsidies were established to encourage construction of affordable housing. Over the past 20 years, the subsidies escalated with inflation to exceed rents for comparable apartments on the private market. The Mark-to-Market Program was enacted by Congress in 1997 as part of a plan to secure the Section 8 Program from financial collapse and avert an affordable housing crises that could have threatened up to 4.4 million Americans with homelessness.

Under restructuring, owners of subsidized properties refinance part of their mortgage balance at lower interest rates and with deferred payments. This will enable owners to continue providing affordable housing even after HUD's Section 8 subsidies are reduced.

For example, in Cleveland, OH, the HUD-approved average rent for a subsidized apartment is \$620 – compared with a rent of \$487 for the same type of apartment on the private market. In Detroit, the comparable figures are \$716 for a subsidized apartment, and \$499 for an apartment on the private market. And in Washington, DC, the average HUD-subsidized rent is \$734, while the typical unsubsidized apartment rents for \$499.

Contracting with public state and local housing finance agencies has been a priority for OMHAR, which expects 14 other public agencies to sign contracts in the coming weeks. The additional contracts will facilitate the mortgage restructuring of 106 properties.

"These partnerships will enable HUD to both bring down the long-term costs of low-income housing subsidized by the Department and make sure families in need have access to decent and safe affordable housing," Peppercorn said.

"The Missouri Housing Development Commission is eager to get started with the program," said Executive Director Richard G. Grose. "We are looking forward to a mutually beneficial experience that will be helpful in preserving affordable housing."

Once the contracts are signed, Peppercorn said, most of the properties that are eligible for the Mark-to-Market Program will be in the process of having their debt restructured. Currently, about 500 properties are available for restructuring, with almost 1,100 more potentially becoming eligible by December. Today's announcement will enable about 400 properties in 44 states to begin the restructuring process. Known as Participating Administrative Entities, the agencies and firms awarded contracts as part of Mark-to-Market will work with OMHAR to restructure the existing debt or rent on about 3,800 properties in the United States.

Contracts to restructure 13 properties in **Oklahoma,** and **New Jersey** have been awarded to First Housing and Community Preservation Corporation Resources, Inc., pending formal approval of public agencies in those states. CPC, a New York-based non-profit that has significant experience in restructuring and tenant relations, will restructure the debt on 5 properties; First Housing will restructure 8 properties. Thirty properties in **Pennsylvania** were also awarded to CPC because of an urgent need to restructure properties in the state.

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hud NEWS

Department of Housing and Urban Development – Andrew Cuomo, Secretary
Office of Public Affairs, Washington, DC 20410

HUD No. 00-183
(202) 708-0685
http://www.hud.gov/news.html

FOR RELEASE
Wednesday
July 26, 2000

HOMEOWNERSHIP RATE HITS ANOTHER RECORD HIGH -- 67.2%

WASHINGTON – A record 67.2 percent of American households owned their own homes in the second quarter of 2000 – once again shattering all previous records. This puts homeownership at a higher percentage than at any time in American history, Housing and Urban Development Secretary Andrew Cuomo announced today.

The percentage of households owning their homes – known as the homeownership rate -- has risen steadily since President Clinton took office, jumping from 64 percent in 1993 to 66.3 percent in 1998 before setting another new annual record in 1999 at 66.8%. This quarter's numbers are on pace for yet another annual record.

"The continued steady increase in homeownership is undeniable evidence that the policies of the Clinton-Gore Administration have built a steady foundation for sustainable growth," said Cuomo. "Owning a home is not only part of the American Dream, it must also be an attainable reality. One home at a time, we are making dreams a reality. In the 1940s, we were a nation of renters -- just 45% of Americans owned their homes. Today, we set another record high homeownership rate of 67.2%. It is the American Dream -- it is the promise of hope and stability. It is the monument to the great American experience."

According to the U.S. Census Bureau, there are now 70,758,000 homeowners in America. That is 8,974,000 more than 1993 when the Clinton-Gore Administration took office.

Noting that minority homeownership still lags behind overall numbers, Cuomo said "We cannot truly enjoy the success of our initiatives to boost homeownership until we erase the gap for minorities." In June of this year, Cuomo announced a new 3-year goal for increased minority homeownership. He has committed the Federal Housing Administration, which is part of HUD, to insure mortgages for more than 765,000 minority families over the next three years.

Here's how the homeownership rate has risen since 1994, measuring the percentage of all households owning their own homes and then listing breakdowns by major racial and ethnic groups, as well as location. The category of OTHER includes Asian Americans, Native Americans, and Pacific Islanders. CENTRAL CITIES are the major cities in metropolitan areas.

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	Homeownership Rate		
	2nd Quarter 2000	4th Quarter 1994	Change in # of Households
NATION OVERALL	67.2	64.2	6,811,000
Central Cities	50.7	48.2	1,395,000
MINORITIES	47.6	43.7	2,708,000
BLACK (non-Hispanic)	47.2	42.9	1,008,000
HISPANIC	45.4	42.2	941,000
OTHER (non-Hispanic)	54.4	51.2	759,000
Female Head of Households	52.2	48.7	1,993,000
Households with Less Than Median Family Income	50.8	48.6	660,000

Homeownership is about building communities. Homeowners take pride in their surroundings, often putting in extra effort into their neighborhoods. Owning a home also means accumulating wealth. As home values increase, their investment in that home grows. Homeowners also strengthen the economy through their purchase of homes and the related furniture and appliances that go with the new purchase. Homeowners also tend to become more involved in community efforts, schools and events. And the value of a home is something that can help secure loans to finance a business, or a child's education, and that value is often passed on to a new generation to help them find economic security.

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hud NEWS

Department of Housing and Urban Development – Andrew Cuomo, Secretary
Office of Public Affairs, Washington, DC 20410

HUD No. 00-48
(202) 708-0685
http://www.hud.gov/news.html

FOR RELEASE
Wednesday
March 8, 2000

PRESIDENT REQUESTS PLAN TO USE ADDITIONAL FUNDS GENERATED BY FHA FOR AFFORDABLE HOUSING

WASHINGTON – Responding to a new report that says the Federal Housing Administration has generated additional funds beyond previous projections, President Clinton has requested recommendations on how to best use excess FHA revenues to expand the supply of affordable housing over the next five years.

A report released Monday says the value of the FHA Insurance Fund for Fiscal Year 1999 was more than $5 billion above previous estimates.

The White House today released a directive the President issued to Housing and Urban Development Secretary Andrew Cuomo, Office of Management and Budget Director Jack Lew, and Domestic Policy Council Director Bruce Reed requesting "recommendations on how newly available funds can be used to further strengthen federal housing programs and develop a plan to enhance comprehensive affordable housing opportunities."

Recommendations could include subsidizing the construction of new affordable rental housing, downpayment assistance programs to increase homeownership, funding for new rental assistance vouchers, and other initiatives.

"One of the fundamental goals of my Administration has been to reinvent government, to make it serve the public better and restore public confidence in the institutions of government," the President said in his directive. "The Department of Housing and Urban Development has met these goals well.... And as the improved administration of HUD and the FHA make available additional resources, we will have the opportunity to do even more to ensure that all Americans have access to affordable housing."

"More than 5 million struggling American families are in desperate need of affordable housing," Cuomo said. "These families now spend over half their income on housing and they can barely make ends meet. Investing any excess funds from FHA to help these families get the housing they need will help transform their lives and will help revitalize communities across our nation."

Cuomo thanked Senator John Kerry of Massachusetts for the Senator's work to provide more funding for affordable housing. "I look forward to working in partnership with Senator Kerry, who is a champion of affordable housing and has proposed a comprehensive housing program," Cuomo said.

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Cuomo was joined at a news conference today by Congressman John LaFalce of New York and by representatives of the following groups: The National Association of Home Builders, the Mortgage Bankers Association of America, and the National Low-Income Housing Coalition to express support for using excess FHA revenues for affordable housing.

Senator Kerry said: "I welcome this effort by President Clinton and Secretary Cuomo. They have been strong advocates for housing. I have proposed a National Housing Trust Fund. These efforts are critical in helping meet the affordable housing needs of the nation."

Congressman LaFalce said: "I am pleased to join Secretary Cuomo in celebrating the good news about the strength of the FHA fund, and to launch a process of expanding its successful homeownership and affordable housing mission."

Congressman Barney Frank of Massachusetts said: "I am very pleased by HUD's new initiative to use available FHA surplus funds to increase the affordable housing supply for lower income people. I am particularly pleased that new construction of affordable housing will get serious consideration. The current crisis in affordable housing in certain areas has, ironically, been made worse by a prosperity that benefits most of us. The is an excellent example of how we can use part of the revenue from a booming economy to alleviate social injustice."

Christopher J. Sumner, President of the Mortgage Bankers Association of America, said: "This is a unique opportunity for a real chance to make a difference in many lives, to support further the already successful federal housing programs and to develop new approaches. Secretary Cuomo has my pledge that we will work with you to further his contribution by using these hard-earned funds wisely and well."

Robert Mitchell, President of the National Association of Home Builders, said: "We will work cooperatively with the Administration and Congress to explore the best way of using excess funds generated from the FHA's revitalized Mutual Mortgage Insurance Fund to expand homeownership opportunities."

FHA, which is part of HUD, generates revenue through its Mutual Mortgage Insurance Fund. The fund collects revenue from fees FHA charges for mortgage insurance. FHA currently returns funds it generates above expenses to the U.S. Treasury each year.

Because of successful management reforms at HUD and FHA, FHA is now expected to bring in additional funds between the years 2002 and 2006 above projections contained in the President's proposed Federal Budget for Fiscal Year 2001.

An independent report issued Monday by the accounting firm of Deloitte & Touche concluded that FHA is in its strongest financial condition since it was created in 1934, with a record economic value of $16.6 billion.

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The Deloitte & Touche study says the record $16.6 billion economic value of the FHA's insurance fund is an increase of $5.3 billion over 1998. The study says this improvement will withstand potential economic downturns. The economic value of the fund is defined as the sum of existing capital plus the value of current insurance in force.

The report also states that FHA's capital adequacy ratio is 3.66 percent – far in excess of the Congressionally mandated goal of 2 percent. The capital adequacy ratio is the economic value of the fund divided by the total insurance in force.

In addition, Deloitte & Touche found that FHA has made a remarkable turnaround from just ten years ago. The FHA insurance fund had an economic value of negative $2.7 billion in 1990. FHA suffered years of mismanagement in the 1980s, and by 1990 it had projected losses from claims on mortgage insurance far in excess of projected revenue. Absent radical restructuring, a costly federal bailout seemed inevitable.

FHA does not make mortgage loans directly, but rather insures loans made by private lenders to homebuyers. Last year FHA insured a record 1.3 million mortgages worth $125 billion. Because FHA mortgage insurance protects lenders from losses, it has enabled 30 million American families who would otherwise be locked out of the mortgage market and homeownership to qualify for mortgages.

FHA now insures about 6.7 million mortgages. When homeowners fail to make payments on mortgages insured by FHA, the agency first tries to help them stay in their homes through foreclosure avoidance. If this is not successful, the lender forecloses on a home and conveys it to FHA in exchange for FHA payment of the outstanding mortgage balance. FHA then puts the home up for sale.

FHA-insured loans also benefit homebuyers in these ways:

- FHA downpayments of 3 percent are lower than the minimum that many lenders require for non-FHA mortgages. Higher downpayments are a major roadblock to homeownership.

- FHA's requirement for homebuyer credit ratings are more flexible than those set by many lenders for non-FHA borrowers.

- FHA permits homebuyers to use gifts from family members and non-profit groups to make their entire downpayment, while conventional loans generally require homebuyers to come up with a portion of the downpayment from their own funds.

- FHA permits a borrower to carry more debt than a private mortgage insurer typically allows.

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hud NEWS

Department of Housing and Urban Development – Andrew Cuomo, Secretary
Office of Public Affairs, Washington, DC

HUD No. 00-7	FOR RELEASE
(202) 708-0685	Friday
http://www.hud.gov/news.html	January 14, 2000

STATEMENT BY FHA COMMISSIONER WILLIAM APGAR ON FANNIE MAE'S "CONSUMER BILL OF RIGHTS"

U.S. Department of Housing and Urban Development Assistant Secretary for Housing/Federal Housing Commissioner William Apgar today issued the following statement in response to a call by Fannie Mae Chairman Franklin Raines for a Mortgage Consumer Bill of Rights. According to Fannie Mae, the Bill of Rights would include greater disclosure of the process Fannie Mae uses to evaluate mortgage applications.

Apgar said:

"HUD is pleased to see that Fannie Mae is heeding Secretary Andrew Cuomo's call for full disclosure of how mortgage funding decisions are made by the Government Sponsored Enterprises (GSEs). As the Secretary has said many times, HUD believes that all Americans who are denied access to mortgage financing have the right to know exactly why they are not being offered a loan. The formula for mortgage approval or disapproval must be clear and definable.

"Mortgage underwriters cannot, and should not, defend secret formulas or computer software programs that generate rejections or acceptances by unknown means. Fannie Mae's announcement that it intends to follow HUD-FHA's lead – announced on November 12, 1999 – in converting its automated underwriting system to a 'glass box' approach is a good first step. But releasing the basic factors used in making mortgage decisions only tells half the story. There is still a long way to go.

"Consumers and lenders still need more information from the GSEs to understand how the component parts of the automated underwriting system interact to arrive at a mortgage decision, including the relative weights of each factor. HUD will continue to use its regulatory authority to ensure consumers have full information about how mortgage decisions are made by the GSEs."

hud NEWS

Department of Housing and Urban Development – Andrew Cuomo, Secretary
Office of Public Affairs, Washington, DC 20410

HUD No. 00-36
(202) 708-0685
http://www.hud.gov/news.html

FOR RELEASE
2 p.m. Wednesday
February 23, 2000

FANNIE MAE GIVES HUD INFORMATION ON 10 MILLION MORTGAGE LOANS FOR FAIR LENDING REVIEW

WASHINGTON – Fannie Mae, the nation's largest housing finance company, has given the Department of Housing and Urban Development information about the systems it has used to evaluate nearly 10 million mortgage loans, clearing the way for HUD to determine if the systems operate in compliance with laws that bar lending discrimination.

"Fannie Mae is cooperating fully to help us carry out this review, and I applaud the company for its cooperation," HUD Secretary Andrew Cuomo said. Cuomo made the statement as he announced that Fannie Mae has complied with HUD's request for information about its mortgage application evaluation systems, including its computerized system known as automated underwriting.

Three weeks ago Fannie Mae gave HUD thousands of pages of information about its underwriting systems. The company also provided HUD with computerized records of the nearly 10 million home mortgage loans it purchased from 1995 through 1999, as well as data on loans it evaluated but did not purchase. HUD has been examining the material since then.

Cuomo was joined at a news conference by Fannie Mae Chairman and Chief Executive Officer Franklin D. Raines.

"Fannie Mae looks forward to working closely in cooperation with HUD on this review," Raines said. "HUD and Fannie Mae have the same goals: ensuring fair lending, fighting discrimination and expanding homeownership opportunities in America."

HUD, which has regulatory power over Fannie Mae, will spend the next several months reviewing the company's data and documentation in order to determine whether Fannie Mae is in compliance with fair lending standards that are designed to prevent discrimination against minorities and others.

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Cuomo said homeowners, the housing industry, Fannie Mae and the rest of the lending industry all benefit when HUD carries out its regulatory role effectively, because this increases the confidence of consumers that they are being treated fairly by the lending industry and opens homeownership to more families.

The Secretary said HUD's review of underwriting by Fannie Mae is needed because studies have shown that the mortgage applications of minorities are more likely to be rejected than the mortgage applications of whites with equivalent income levels, savings, and financial histories.

The Urban Institute prepared a study for HUD last September that concluded that "not all Americans enjoy equal access to the benefits of homeownership, in part because of unequal access to capital." The study also said that "minorities are less likely than whites to obtain mortgage financing and, if successful in obtaining a mortgage, tend to receive less generous loan amounts and terms."

"A mortgage is the key that unlocks the door to homeownership and a secure financial future, and too many minority families are being told they can't get that key," Cuomo said. "As a result, a homeownership gap continues to divide whites and minorities. Most white families own their homes, and build wealth as they pay off their mortgages. Most minority families are renters who see their rents go up year after year without any financial benefit."

While 73.2 percent of white families owned their homes in 1999, only 46.7 percent of African American families and 45.5 percent of Hispanic families owned their homes last year.

Fannie Mae buys mortgages issued by banks, thrift institutions and other mortgage lenders, and then sells them to investors as mortgage-backed securities. This provides the lenders with the cash needed to issue new mortgages. Fannie Mae's underwriting guidelines, including its automated system, set the standard that determines whether Fannie Mae will purchase individual home mortgage loans from lenders.

Lenders are often reluctant to originate mortgage loans to borrowers who don't meet Fannie Mae's standards, preventing families from buying or refinancing homes. As a result, many mortgage applications for conventional loans that are not accepted for purchase by Fannie Mae are rejected by lenders, or are approved by lenders only with much higher interest rates.

Congress has given HUD responsibility for regulating Fannie Mae, which is a Government Sponsored Enterprise (GSE). The company was chartered by Congress to provide public benefits by helping to expand homeownership and the supply of affordable rental housing for low- and moderate-income families, and for residents of communities underserved by mortgage credit.

As a result of its Congressional charter, Fannie Mae receives special advantages – such as an exemption from all state and local taxes except property taxes, and an exemption from Securities and Exchange Commission registration requirements.

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In addition, Fannie Mae's ties to the government have helped the company get the highest possible credit rating to reduce its borrowing costs, and have boosted investor confidence in the company, thereby helping to increase earnings.

Cuomo last year asked Fannie Mae to provide detailed information about its underwriting systems. The information Fannie Mae turned over to HUD will enable HUD to determine if any of the criteria used by the company's underwriting systems contribute purposely or inadvertently to illegal lending discrimination.

Fannie Mae's automated underwriting system is called Desktop Underwriter®. It allows mortgage bankers, brokers, and financial institutions to use computers to enter information on loan applicants, transmit the information to Fannie Mae, and receive a determination on whether Fannie Mae will accept a loan application or refer it back to the lender for manual underwriting. Desktop Underwriter uses credit scores and other automated information on loan applicants to make its decisions. Although Desktop Underwriter is only five years old, it and similar systems are rapidly becoming the prevailing means of determining if someone qualifies for a conventional mortgage.

HUD plans to draw on numerous resources to analyze the information and data it has received from Fannie Mae. Staff with expertise in regulatory oversight, economists with experience in handling large databases, fair housing and fair lending analysts, and attorneys will analyze the information from Fannie Mae. HUD may also draw on expertise from other regulatory agencies for advice and guidance on credit scoring and fair lending issues.

Last July Cuomo announced a policy to require Fannie Mae and Freddie Mac (the other GSE engaged in housing finance) to buy $2.4 trillion in mortgages in the next 10 years to provide affordable housing for about 28.1 million low- and moderate-income families. The historic action raised the required percentage of mortgage loans for low- and moderate-income families that the companies must buy from the current 42 percent of their total purchases to a new high of 50 percent – a 19 percent increase – in the year 2001. The percentage will first increase to 48 percent this year.

The mortgage purchase requirements for Fannie Mae and Freddie Mac – known as the Affordable Housing Goals – were last set by HUD in 1995, under a Congressional mandate. The goals came up for renewal last year, and HUD had the choice of leaving them unchanged, lowering them, or raising them. In addition to helping low- and moderate-income families, the initiative will also increase the affordable housing goals for loans made to underserved areas and will raise the goal for mortgages to benefit families with very low incomes.

Under the higher goals, Fannie Mae and Freddie Mac will buy an additional $488.3 billion in mortgages that will be used to provide affordable housing for 7 million more low- and moderate-income families over the next 10 years. Those new mortgages and the families who get them are over and above the $1.9 trillion in mortgages for 21.1 million families that would have been issued if the goals were not increased.

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hud NEWS

Department of Housing and Urban Development – Andrew Cuomo, Secretary
Office of Public Affairs, Washington, DC 20410

HUD No. 00-45
(202) 708-0685
http://www.hud.gov/news.html

FOR RELEASE
Thursday
March 2, 2000

HUD RELEASES PROPOSED RULE TO PROVIDE $2.4 TRILLION IN MORTGAGES FOR AFFORDABLE HOUSING FOR 28.1 MILLION FAMILIES

WASHINGTON – The U.S. Department of Housing and Urban Development today issued a proposed HUD rule that would require the nation's two largest housing finance companies to buy $2.4 trillion in mortgages over the next 10 years to provide affordable housing for about 28.1 million low- and moderate-income families.

The historic action by HUD raises the required percentage of mortgage loans for low- and moderate-income families that finance companies Fannie Mae and Freddie Mac must buy from the current 42 percent of their total purchases to a new high of 50 percent – a 19 percent increase – in the year 2001. The percentage will first increase to 48 percent in 2000.

"This rule will greatly expand the supply of affordable housing across the country, giving millions of families the opportunity to buy homes or to move into apartments with rents that they can afford," HUD Secretary Andrew Cuomo said.

The public comment period for the proposed rule is 60 days. Following that, HUD will review comments received, make any revisions deemed appropriate based on those comments and publish a final rule by the fall of this year. The proposed rule has been posted at **www.hud.gov/gse/**

The mortgage purchase requirement for Fannie Mae and Freddie Mac – known as the Affordable Housing Goals – was last set by HUD in 1995, under a requirement mandated by Congress. The goals came up for renewal this year, and HUD had the choice of leaving them unchanged, lowering them, or raising them. In addition to helping low- and moderate-income families, the new initiative will also increase the affordable housing goals for loans made to underserved areas and will raise the goal for mortgages to benefit families with very low incomes.

Under the higher goals, Fannie Mae and Freddie Mac will buy an additional $488.3 billion in mortgages that will be used to provide affordable housing for 7 million more low- and moderate-income families, many of them minorities, over the next 10 years. Those new mortgages and families are over and above the $1.9 trillion in mortgages for 21.1 million families that would have been generated if the current goals had been retained.

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Fannie Mae and Freddie Mac buy mortgages for both individual homes and for apartment buildings.

Congress gave HUD the responsibility of regulating Fannie Mae and Freddie Mac because the two companies are Government Sponsored Enterprises (GSEs) that were chartered by Congress. The policy announced today will be implemented by HUD regulations. Such regulations go into effect after review by Congress and the Office of Management and Budget, along with a period of full public comment.

The GSEs buy mortgages issued by banks, thrift institutions and other mortgage lenders, and then package the loans and sell them to investors as mortgage-backed securities. When Fannie Mae and Freddie Mac buy the mortgages from lenders, they provide the lenders with the cash needed to issue new mortgages.

Congress has given GSEs special advantages – such an exemption from all state and local taxes except property taxes, and an exemption from Securities and Exchange Commission registration requirements. In addition, the ties of the GSEs to government has helped them get the highest credit rating to reduce their borrowing costs, and has boosted investor confidence in the two companies, thereby helping to increase their earnings. The Treasury Department reports that the benefits of federal sponsorship are worth almost $6 billion annually to the GSEs.

The GSEs are publicly chartered to provide broad public benefits. Congress, through Fannie Mae's and Freddie Mac's Charter Acts and the 1992 GSE Act, required that the two GSEs, in return for their publicly provided benefits, extend the benefits of the secondary mortgage market to a broad range of Americans. These include low- and moderate-income families, first-time homebuyers, and residents of communities underserved by mortgage credit.

If Fannie Mae and Freddie Mac fail to make a good faith effort to achieve the Affordable Housing Goals set by HUD, the Secretary of HUD has the authority to impose civil money penalties of up to $10,000 for each day the failure occurs.

Families are considered as having low and moderate incomes if they make no more than the area median income, which varies by community. The national average for the median income is $47,800.

In addition to raising the low- and moderate-income goal from 42 percent to 50 percent, HUD acted to raise two other Congressionally mandated goals. A special affordable housing goal for families with very low incomes and low incomes (those with less than 60 percent and 80 percent of area median) jumps from the current 14 percent to 20 percent (a 43 percent increase). In addition, a geographically targeted goal for underserved areas (central cities, rural areas, and underserved communities based on income and minority concentration) goes from 24 percent to 31 percent (a 29 percent increase).

The proposed rule is among a series of actions HUD has taken to increase homeownership in under-served areas, particularly among minority Americans. Though America's homeownership rate is at a record high level, there is a disparity between the rate for whites and others. The homeownrship rate for whites is 73 percent while it is 45 percent for Hispanics, 46 percent for blacks and 51 percent for Asian-Americans.

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U.S. Department of Housing and Urban Development
Office of Public Affairs
ashington, D.C. 20410

News Release

HUD No. 95-117
Aylim Gonen (202) 708-0685 x119
Bill Connelly (202) 708-0685, x115

FOR RELEASE:
Monday,
June 5, 1995

NEW NATIONAL HOMEOWNERSHIP STRATEGY CAN CREATE 8 MILLION NEW HOMEOWNERS BY YEAR 2000

HUD Secretary Henry G. Cisneros joined President Clinton, Vice President Gore, and representatives of government and industry, non-profit and for-profit housing advocates today to announce a National Homeownership Strategy that will add up to 8 million new families to the nation's homeownership rolls by the end of the year 2000.

Secretary Cisneros, who was charged by the President to work with public/private partners to develop the strategy, said "For most Americans, homeownership is the key to a better life, and throughout America, people are rightfully demanding that this country deliver once again on its brightest promise: if you are willing to work hard and accept responsibility, you can build a better life for yourself and your family, and even own a home of your own."

The National Homeownership Strategy is based on a partnership between the private sector and government. More than 50 partners, including Fannie Mae, Freddie Mac, the National Association of Home Builders, the National Association of Realtors, Habitat for Humanity, the National League of Cities, and the U.S. Department of Housing and Urban Development, will help more working families become homeowners.

by taking specific actions to make it less expensive to buy, rehab and build homes, make it easier for people to get mortgages, and expand homeownership opportunities by increasing production of new affordable homes.

From 1940 to 1980, American homeownership rates rose steadily, from 43.6 percent of all households to 65.6 percent. After 1980, the overall ownership rate declined to about 64 percent. While the rate began rising once again in 1993, the current homeownership rate is still well below its historic peak.

"The goal of the National Homeownership Strategy is to boost America's national homeownership rate to an all-time high of 67.5 percent," Secretary Cisneros said. "This will mean up to 8 million new homeowners, especially low- and moderate income families, single heads of households, minorities, and others who usually are renters.

"It does not require new government programs or new funds from Congress, because local, state and national groups will take steps to make it less expensive to buy a home and easier to get a mortgage, and will work to eliminate obstacles to homeownership," Cisneros added.

The priorities in the National Homeownership strategy include:

- **Cutting the costs** of homeownership including financing, production and transactions costs and fees, to make homeownership more affordable, make financing more available, and simplify the homebuying process.

- **Opening markets** for homeownership to increase choice and remove discriminatory and regulatory barriers, making homes, financing, and insurance available and affordable for more households.

- **Expanding opportunities** for homeownership for millions of additional families through education and counseling, information technology, communications media, and community involvement.

-more-

For example, the Partners plan to:

- reduce the amount of cash needed to buy a home by cutting mortgage closing costs.
- cut in half the waiting period for mortgage approvals by simplifying the mortgage lending process, reducing paperwork and hassles for home buyers, and making it easier for first-time buyers to qualify for mortgages by establishing innovative, low-downpayment programs.
- increase production of affordable starter homes for first-time buyers.
- make it easier to obtain financing to buy and repair older existing homes.
- reduce the cost of new single-family homes by advancing new designs, construction materials and building methods that reduce construction costs and by eliminating excessive building regulations.
- expand home counseling for first-time home buyers.
- expand consumer knowledge of homeownership opportunities through local "home fairs," homeownership centers, home buying clubs and high school and college educational programs.

Cisneros pointed out that homeownership is vital to strengthening our nation's families, stabilizing communities, and fostering local economic prosperity.

"Homeownership encourages savings and investment, promotes economic and civic responsibility, and is the primary means of wealth accumulation for most Americans," the HUD Secretary said. "Owning a home provides greater opportunity for personal control and family security, a very desirable goal in our society."

Families and individuals who would like more information on new homeownership opportunities in their community are encouraged to write to:

Homeowners Partnership,
P.O. Box 6091,
Rockville, MD 20850

# # #

HUD No. 95-205
Aylin Gonen (202)708-0685 ext. 119
Bill Connelly (202)708-0685 ext. 115

FOR RELEASE:
Thursday,
November 9, 1995

HUD ANNOUNCES SHARP RISE IN NATIONAL HOMEOWNERSHIP RATE; NEARLY A MILLION NEW HOMEOWNERS ADDED SO FAR IN 1995

WASHINGTON--HUD Secretary Henry G. Cisneros and Laura D'Andrea Tyson, President Clinton's National Economic Advisor, said today that the Clinton Administration's economic policies, lower interest rates, and a government partnership with the housing industry have helped nearly a million more Americans become homeowners this year.

The national homeownership rate rose to 65 percent in the third quarter of 1995, the largest increase in the rate in almost a decade and a half.

Cisneros said this surge in homeownership bodes well for the success of President Clinton's year-old National Homeownership Strategy, which is seeking to add up to 8 million more families to the homeownership rolls by the end of the year 2000.

"After years of decline and stagnation, homeownership is moving in the right direction," Cisneros said. "HUD and its partners are committed to removing the barriers that have kept millions of Americans from achieving the dream of homeownership. It's clear that we are making progress."

At the end of 1994, the national homeownership rate was 64.2 percent. Between the end of December, 1994, and the end of September of this year, the homeownership rate rose almost a full percentage point. This translates into 938,000 new homeowners since January.

"The dramatic increase in homeownership provides strong evidence of the success of this Administration's policies to bring down the deficit, get the economy moving again, and help make homeownership--the American dream--a reality for millions of hard working people in this country," said Economic Advisor Tyson.

(more)

"This surge in homeownership is encouraging in itself, but the news gets better," Cisneros said. "There has been a statistically significant increase in the homeownership rate among young households--families headed by people under 35 years old--from 56.9 percent to 57.9 percent. And the homeownership rate for minorities increased from 43.7 percent to 44 percent."

Cisneros said several factors led to the increase in homeowners. First, due to President Clinton's economic plan, long-term interest rates are at historic lows, and mortgage rates have fallen to their lowest level in 20 months. Second, HUD is working with the housing industry in a public-private partnership to make homeownership more accessible to more people.

President Clinton launched the National Homeownership Strategy in November, 1994. He directed Cisneros to form the "National Partners in Homeownership," in which 56 major housing and finance industry groups are now working with government and nonprofit organizations to reduce barriers to homeownership.

On June 5, 1995, President Clinton, Vice President Gore and Secretary Cisneros were joined by the Partners at the White House to announce a plan recommending 100 proposed collaborative actions to increase homeownership. These include:

* **Cutting the costs** of homeownership (including financing, production and transaction costs and fees), making financing more available, and simplifying the homebuying process.

* **Opening markets** for homeownership to increase choice and remove discriminatory and regulatory barriers, making homes, financing, and insurance available and affordable for more households.

* **Encouraging homeownership** for millions of additional families through education and counseling, information technology, communications media, and community involvement.

While the Partnership is still relatively new, considerable work implementing the National Homeownership Strategy is already under way:

* **Home buyer education is being improved.** For example, the Neighborhood Reinvestment Corporation, American Bankers Association and the National Foundation for Consumer Credit have formed a new partnership to enhance understanding of the home buying process through education seminars and the publication of five new workbooks, entitled, "Realizing the American Dream."

(more)

* **New home construction technology is being explored.** Habitat, HUD and the National Association of Home Builders are building an affordable demonstration home using new cost-effective, state-of-the-art technology.

* **Savings for downpayments and closing costs are being encouraged.** For example, the Federal Housing Finance Board recently authorized the Federal Home Loan Bank System's Affordable Housing Program subsidies to be used as a match to induce higher family savings.

* **Increasing homeownership in urban America through "local partnerships" is being encouraged.** For example, the City of Los Angeles has made a six-fold increase in funding for homeownership and forged new partnerships with many local affiliates of national partners, including NeighborWorks offices, Fannie Mae, Freddie Mac, Habitat, Home Builders and Manufactured Housing.

* **Mortgage credit in rural America is being improved** through new partnerships involving the USDA's Rural Housing and Community Development Service, Freddie Mac, Fannie Mae, state housing finance agencies and others.

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U.S. Department of Housing and Urban Development
Office of Public Affairs

/ashington, D.C. 20410

News Release

HUD No. 95-219
Aylin Gonen (202)708-0685 ext. 119
Bill Connelly (202)708-0685 ext. 115

FOR RELEASE:
Thursday,
November 30, 1995

SETTING NEW HOUSING GOALS FOR FANNIE MAE AND FREDDIE MAC, HUD MAKES MORE MORTGAGES AVAILABLE FOR WORKING FAMILIES

WASHINGTON--The Department of Housing and Urban Development (HUD) will publish a final rule Friday, Dec. 1, requiring Fannie Mae and Freddie Mac to make substantial mortgage resources available for America's working families.

As industry leaders, Fannie Mae and Freddie Mac are critical to President Clinton's National Homeownership Strategy. The GSEs are partners in this strategy and, as such, are committed to its goal of increasing homeownership to record levels by the year 2000.

In the current economic environment, the new HUD's action translates into approximately $150 billion of capital for mortgages to low- and moderate-income families and residents of underserved neighborhoods.

The Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) are the nation's two largest government sponsored enterprises (GSEs). By providing a secondary mortgage market, they finance 70 percent of all conventional, conforming home mortgages in the country.

"HUD's final rule helps focus Fannie Mae's and Freddie Mac's considerable resources toward America's working families," said HUD Secretary Henry G. Cisneros. "This will help to ensure that creditworthy families with low or modest income are not denied access to mortgage credit.

"Fannie Mae and Freddie Mac are already working to achieve this objective, and they are demonstrating that improving homeownership opportunities for more working families is not just good public policy; it is good business."

(more)

The final HUD rule establishes affordable housing goals but lets the GSEs decide how to achieve them. HUD oversees the GSEs' performance, Cisneros said, but the Department wants to allow the GSEs to lead the market without governmental micromanagement.

HUD's final rule implements the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (GSE Act). Congress enacted this law to encourage greater participation by Fannie Mae and Freddie Mac, private businesses, public agencies, financial institutions, and housing providers in expanding homeownership and affordable housing opportunities for very-low, low- and moderate-income families.

In addition to the housing goals, HUD's new rule contains provisions for fair lending, new program approval, reporting, data collection and due process.

"The percentage of the GSEs' business devoted to very low-, low- and moderate-income families has increased dramatically since the statute was enacted in 1992," said Cisneros. "The housing goals are reasonable and achievable, and I am confident that the GSEs, with their management and operational strength, will have no difficulty achieving these goals."

In preparing the rule, HUD evaluated more than 163 written comments and sought further input from the GSEs, industry trade groups, community leaders and other federal, state and local agencies.

As a result of this process, Cisneros said, HUD officials are confident the final rule represents a responsive, flexible and workable framework for achieving the law's objectives.

In the GSE Act, Congress charged HUD with setting three housing goals established as a percentage of total units financed by Fannie and Freddie each year. The goals are defined in the rule as follows:

Goal	**1996**	**1997-99**
Low- and moderate-income goal	40%	42%
Special affordable goal	12%	14%
Geographically targeted goal	21%	24%

The special affordable goal covers families with very low-incomes and those with low-incomes living in low-income areas. The geographically targeted goal focuses on families in central cities, rural areas and other underserved areas.

(more)

Transition housing goals for the three categories have been in place since the GSE Act was passed. During this period, Fannie Mae exceeded all three performance goals while Freddie Mac exceeded the low- and moderate-income goal.

The GSE Act further requires that HUD establish fair lending requirements for Fannie Mae and Freddie Mac that prohibit these institutions from engaging in discrimination. The final rule reflects the statutory language prohibiting this discrimination.

The Act also requires HUD to review and approve proposed new Fannie Mae and Freddie Mac programs to ensure that they are consistent with the GSEs' charters and not harmful to the public interest or the institutions' financial condition. The Act established a number of requirements including data collection, reporting and due process, defined more fully in HUD's final rule.

"The GSEs are well-managed, highly profitable companies," Cisneros said. "They are congressionally chartered, shareholder-owned corporations which receive substantial federal benefits in order to achieve public purposes in the housing markets. Supporting and expanding the mortgage market for very low-, low- and moderate-income families supports the public purposes envisioned by Congress in chartering Freddie Mac and Fannie Mae."

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News Release

HUD No. 96-156
Bill Connelly 202/708-0685 Ext 115
Alex Sachs 202/708-0685 Ext 111

FOR IMMEDIATE RELEASE
Thursday,
September 12, 1996

**CISNEROS UPDATES PARTNERS ON HOMEOWNERSHIP EFFORTS;
NEW INITIATIVES MARK AN ACTIVE SUMMER**

WASHINGTON, D.C. -- The National Partners in Homeownership have made tremendous progress toward achieving President Clinton's goal of raising the national homeownership rate to an all-time high by the year 2000, Housing Secretary Henry G. Cisneros said today.

Cisneros spoke today at a quarterly meeting of the Partners -- an unprecedented alliance of 58 organizations from the housing industry, the lending community, government and non-profit, community groups.

"Having increased the homeownership rate to 65.4 percent of all American households -- the highest rate in 15 years -- we are making strong progress toward achieving President Clinton's goals," Cisneros said. "The work of the partners, coupled with the nation's continuing strong economic growth, is helping more and more Americans become homeowners."

On the economic front, Cisneros cited the 10.5 million new jobs created under President Clinton's leadership; an unemployment rate below 6 percent for the past 22 months, dropping to 5.1 percent in August; and relatively low interest rates. For the last three and one-half years, interest rates have averaged 7.6 percent -- well below the 10 percent rates of the 1980s.

These factors have contributed to Americans' confidence in the economy and to the decisions of more Americans to buy homes, Cisneros said.

Cisneros also specifically touted the progress made by the Partners toward achieving objectives set at last February's partnership meeting:

- Raising the visibility of the National Homeownership Strategy and the Partnership;
- Accelerating outreach to underserved populations; and

- more -

- Underscoring the importance of strong, long-term local partnerships supplementing the national effort.

The effort to provide homeownership for more Americans was highlighted by June's National Homeownership Summit -- attended by more than 1,400 people and addressed by the President; by the seven regional summits held in Denver, Portland, Pittsburgh, Miami, Kansas City, Oakland and Lansing; and by outreach activities sponsored by a number of the National Partners.

With the homeownership rate for minorities more than 20 percentage points lower than the national average, and the rate of homeownership for female-headed households at just 50 percent, HUD has recently announced a series of outreach initiatives to these underserved groups.

The Department has announced a Homeownership Opportunities for Women program and is working with lenders to develop computerized underwriting models that are sensitive to special circumstances faced by women homebuyers. Through a partnership with the Congress of National Black Churches, HUD will offer homebuyer education and counseling classes to help increase the homeownership rate among African Americans. Finally, the Department is reaching out to potential Latino and Asian American homebuyers through targeted marketing of FHA loan programs.

Cisneros said that a number of the National Partners, including the National Association of Realtors, the Mortgage Bankers Association, Fannie Mae and Freddie Mac, have recently reaffirmed their commitments to help close gaps and serve those who have previously not been well served by the homebuying system.

At February's quarterly meeting, the National Partners committed to establishing local partnerships, and so far more than 70 such groups have been identified. These groups, structured along the lines of the national partnership, are able to target local needs, whether they are in the area of lending, counseling, outreach or downpayment and homebuying assistance.

The National Partners in Homeownership were organized in 1994 in response to President Clinton's challenge to raise the national homeownership rate to a record 67.5 percent of all U.S. households by the end of the year 2000. The group works to increase the homeownership rate by reducing the costs of buying and owning a home, simplifying the homebuying process, and expanding opportunities for homeownership to typically underserved communities including women, African Americans, Latinos and young, first-time homebuying families.

Over the past two years, the nation's homeownership rate has climbed by a record 1.6 percentage points to the 15-year high of 65.4 percent. With the addition of 700,000 new homeowning families during the 2nd quarter of this year, the number of homeowners reached 66.1 million -- the largest number of homeowners in our nation's history.

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U.S. Department of Housing and Urban Development
Office of Public Affairs
Washington, D.C. 20410

News Release

HUD No. 96-74
Gayela Bynum (202) 708-0277 x114
Bill Connelly (202) 708-0685 x115

FOR RELEASE:
Wednesday
April 10, 1996

PRESIDENT CLINTON SIGNS LEGISLATION EXPANDING FHA'S REVERSE MORTGAGE INSURANCE PROGRAM

President Clinton signed into law on March 28 a measure (Public Law 104-120) expanding the Federal Housing Administration's reverse mortgage demonstration program, which enables older Americans to tap the equity in their homes to meet living expenses.

The new law extends the FHA's Home Equity Conversion Mortgage (HECM) Insurance Demonstration program to the year 2000 and expands from 15,000 to 50,000 the number of such loans that FHA may insure. The program is also expanded to include properties with two- to four-family units if the elderly homeowner occupies one of the units.

These changes, effective immediately, will greatly expand the program, making it available to elderly homeowners in all states except Texas and in the District of Columbia and Puerto Rico.

The reverse mortgage program enables elderly homeowners to convert equity in their homes to monthly streams of income and/or lines of credit to meet their financial needs--and yet continue to live in those homes. The FHA program was designed to introduce the reverse mortgage concept to the private sector mortgage markets and encourage them to participate in offering similar plans.

"Considerable progress has been made in promoting the reverse mortgage concept," said HUD Assistant Secretary/FHA Commissioner Nicolas P. Retsinas. "This new law will enable further expansion and finetuning. This program can be a financial godsend for many older people who need urgently need more cash income and have substantial equity in their homes."

Retsinas noted that the private markets have responded strongly and are now offering more reverse mortgage plans, including one recently introduced by the Federal National Mortgage Association (Fannie Mae). FHA is considered a pioneer HUD No. 96-74 in testing and advocating the reverse mortgage concept.

FHA streamlined the HECM Demonstration in 1995 by permitting HECM lenders to directly endorse HECM loans for FHA-insurance. Other rulemaking to further streamline the program is in process.

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U.S. Department of Housing and Urban Development
Office of Public Affairs

Washington, D.C. 20410

News Release

HUD No. 96-123
Victor Lambert (202) 708-0685
Deborah Anderson, Freddie Mac, (703) 903-2408

FOR RELEASE:
Tuesday,
July 9, 1996

FHA AND FREDDIE MAC ANNOUNCE PILOT TO TEST AUTOMATED UNDERWRITING OF FHA LOANS

WASHINGTON, D.C. -- The Federal Housing Administration (FHA) and Freddie Mac will begin a six-month pilot program using an FHA-specific version of Freddie Mac's Loan Prospector® (Loan Prospector for FHA Loans) to automate the underwriting of FHA loans.

The cooperative effort, outlined in the Statement of Understanding signed today, is aimed at:

- studying how automated underwriting technology can help to expand markets to more credit-worthy borrowers;
- making the origination of FHA loans more efficient and affordable; and
- ensuring that the use of automated underwriting technology will not adversely affect borrowers served by FHA.

"This pilot represents the National Partners in Homeownership at their best," said Henry G. Cisneros, Secretary of the U.S. Department of Housing and Urban Development. "Pooling the resources of the private sector with those of the government, we are striving to increase the nation's homeownership rate to its highest level ever. This pilot brings together Freddie Mac, mortgage lenders, and FHA in a test of how new technologies can make FHA work better for more American families."

"This joint initiative offers a glimpse of the mortgage market of the future -- a future where FHA loans can be processed by lenders in days instead of weeks," said Leland C. Brendsel,

-more-

Chairman and CEO of Freddie Mac. "By reducing costs and bringing greater efficiencies to the mortgage market, we will enable more people to own their own homes."

Freddie Mac took a sample of FHA loans made in 1991 and 1992 and built a statistically-based, mortgage scoring model to predict the likelihood of default specifically for FHA loans. This model was integrated into software that allows Loan Prospector for FHA Loans to perform a risk evaluation within four minutes.

Lenders will be able to access Loan Prospector for FHA Loans by linking directly through their loan origination system. In addition to the risk assessment, the system will evaluate the application against FHA statutory requirements (i.e., downpayment, geographic loan limits, maximum loan amount), eligible product types, and additional FHA credit guidelines. The system will report its assessment to the lender who will make the ultimate credit decision. During the pilot, FHA will agree with individual lenders to modify some of the documentation or credit requirements for loans that receive a favorable risk assessment.

Freddie Mac and FHA said that they expect that eight, geographically diverse, FHA-approved lenders, including current Loan Prospector users and new users, a housing finance agency and a non-profit, will participate in the six-month pilot, with four to six thousand loans being made under the demonstration.

Loan Prospector is a service developed by Freddie Mac that provides a lender with a risk evaluation and a decision whether Freddie Mac would purchase that loan, using loan application, credit, and property information to evaluate a potential borrower's ability to meet a mortgage obligation. Freddie Mac is actively working to expand the uses of Loan Prospector to meet the needs of lenders.

"With this initiative, Freddie Mac takes a big step forward in underwriting FHA loans with Loan Prospector," said David Glenn, President of Freddie Mac. "We're well on our way to providing lenders with a single automated underwriting service to process virtually all of their mortgages."

FHA also is releasing a Mortgagee Letter that outlines the steps that FHA uses to evaluate requests for approval of automated underwriting systems. FHA encourages any sponsor of an automated underwriting system to obtain FHA loan data, to develop mortgage scoring models specifically for FHA loans, to

-more-

demonstrate to FHA the predictive power of their system, and to demonstrate to FHA that the system can be used in a manner that helps FHA achieve its public mission and does not facilitate discrimination.

"FHA presents a unique opportunity to demonstrate to the market a responsible approach to integrating automated underwriting into the mortgage business," Federal Housing Commissioner Nicolas P. Retsinas said. "We must move forward with new technologies, but only after we carefully evaluate the impact of their use and design strategies to ensure that their use serves our mission of expanding homeownership opportunities."

The Federal Housing Administration was created in 1934 to provide mortgage insurance on home mortgage loans. For over 62 years, FHA has pioneered low-down payment and long-term mortgages, allowing over 24 million American families to achieve homeownership. Today, FHA insurance allows lenders to make loans using more flexible underwriting than they use for conventional loans, including lower downpayments, closing cost financing, and higher debt-to-income ratios. Last year, 70 percent of FHA-insured purchase money mortgages were made to first-time homebuyers.

Freddie Mac is a stockholder-owned corporation established by Congress in 1970 to create a continuous flow of funds to mortgage lenders in support of homeownership and rental housing. Freddie Mac purchases mortgages from lenders and packages them into securities that are sold to investors. Over the years, Freddie Mac has helped finance one in six American homes.

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U.S. Department of Housing and Urban Development
Office of Public Affairs

Washington D.C. 20410

News Release

HUD No. 96-107
Aylin Gonen (202) 708-0685 ext. 119
Bill Connelly (202) 708-0685 ext. 115

FOR RELEASE:
FRIDAY,
June 7, 1996

CISNEROS RELEASES INDEPENDENT AUDIT CONFIRMING THAT FHA'S FINANCIAL HEALTH IS GREATLY IMPROVED

WASHINGTON--A once-troubled Federal Housing Administration (FHA) insurance fund has shown marked financial improvement three years in a row under the Clinton Administration, FHA's audited financial statements revealed today.

Housing Secretary Henry G. Cisneros announced the audit findings and pointed to other signs that the aggressive reinvention of every aspect of FHA's business is paying dividends for American taxpayers, communities, and homeowners.

The audit, conducted for HUD's Inspector General by the independent firm of KPMG, Peat Marwick LLP, provides an independent assessment of HUD's progress in restoring FHA to financial health after the agency's crippling weaknesses earlier in the decade.

"A healthy FHA means greater homeownership and affordable housing opportunities for those low- and moderate-income families that the private sector cannot or will not serve," Cisneros said. "A healthy FHA also has contributed greatly to the surge in homeownership since President Clinton took office. In the past three and a half years, 3.1 million more Americans have become homeowners."

Contrasting the figures released today with those for 1992 shows marked improvement during the Clinton Administration:

- **FHA's Mutual Mortgage Insurance (MMI) Fund, which backs single-family mortgages, has now exceeded Congressional goals for the year 2000 -- five years ahead of schedule.** The MMI Fund's capital ratio (a measure of the fund's cushion against unexpected insurance losses)

-- more --

increased to 2.05%, exceeding the Congressional target of 2.0% for the year 2000. In 1992, the ratio was only .43%, far less than the Congressional goal of 1.25% for that year. The economic value of the MMI fund has more than quadrupled to $7.086 billion since 1992 after technical insolvency at the beginning of the decade.

- **Multifamily Loss Reserves continue to decline, illustrating lower risk to taxpayers of future insurance losses.** At the start of the Administration, HUD reported that troubled loans in the multifamily insurance portfolio required FHA to set aside $11.9 billion in a loss reserve -- twice as much as during the previous year. Each year since, that reserve has declined in size. This year it is $8.4 billion down from $9.5 billion last year.

- **Annual claims on single family loans have dropped to the lowest level since FY 1986.** In FY 1995, FHA claims dropped 11%, down to 65,503 from 73,228 in FY 1994 and 83,563 in FY 1992.

- **Inventories of properties acquired after default and foreclosure have dropped significantly.** At the end of FY 1995, HUD owned only 77 multifamily properties, down from an all-time high of 178 at the end of FY 1993. The single family property inventory dropped to an eleven-year low of 24,196, down from 34,814 in FY 1992.

- **Inventories of single family and multifamily notes, assigned to HUD, have leveled off.** FHA's aggressive loan sale program has reduced the multifamily note portfolio to 1,708 by the end of FY 1995. Single family note sales and additional multifamily sales since the end of the fiscal year have reduced these portfolios yet further.

The audit also concludes that FHA has put in place multi-year plans to address long-term management weaknesses. Progress has been made in each of these areas despite shrinking resources and significant barriers to change.

"Progress has been made possible by the efforts of FHA employees to reengineer our business from top to bottom," FHA Commissioner Nicolas P. Retsinas said.

-- more --

In recognition of these efforts, 10 teams of FHA employees received 1996 Hammer Awards from Vice President Gore's National Performance Review. This year's winners join FHA employees on five Hammer Award-winning teams last year. These awards celebrate FHA employees efforts to make government more efficient, more responsive to customers, and less costly to taxpayers. (See attached list of Hammer Award winners.)

# # #

FHA WINNERS OF THE
1996 HAMMER AWARD

Ten teams of Federal Housing Administration (FHA) employees have won 1996 Hammer Awards from Vice President Gore's National Performance Review.

The winning teams and team leaders are:

1. **HUD Mortgage Sales Team**: for developing an aggressive program to sell defaulted single family and multifamily HUD-owned mortgages, freeing staff to monitor insured loans and producing, so far, $672 million in savings to fund new multifamily business and deficit reduction.
   Leaders: Audrey Hinton and Joe McCloskey.

2. **FHA Comptroller Paperless Processing Implementation Team**: for implementing four paperless processing projects using Electronic Data Interchange (EDI), reducing the time for each interaction between a lender and FHA from over two weeks to two days.
   Leader: Ken Tucker

3. **Voucher Processing Team**: for developing a prototype automated center to consolidate post-payment voucher reviews once conducted in each local field office, improving financial controls and customer service and reducing review times by 75%.
   Leader: Stephen Burgess

4. **Public Inquiry Communications Team**: for developing an automated system to respond to homeowner inquiries concerning premium refunds, reducing response time from up to three months to three-five days.
   Leader: Ken Tucker

5. **Reengineering FHA Business Practices Team**: for streamlining the requirements and processes for FHA lender approval, reducing for example, branch application processing time from two-three weeks to one day.
   Leader: Bill Heyman

6. **Multifamily Insurance Applications FastTrack Processing Team**: for developing a new system for processing selected multifamily insurance applications that reduced processing costs by 50% and timeframes by 60-75%.
   Leaders: John Taylor and Tom Cusack

7. **Single Family Development Paperwork Reduction Team**: for eliminating and consolidating paperwork required in the origination of an FHA-insured loan.
   Leader: Dick Manuel

8. **Multifamily Property Disposition Demonstration Team:** for developing a model partnership between the federal government, a state housing finance agency, and the low- and moderate-income residents in multifamily housing developments that HUD has acquired through foreclosure for the management and sale of those properties.
Leader: Casimir Kolaski

9. **Neighborhood Networks Team:** for an initiative to facilitate job training, education, and microenterprises where people live -- in FHA-insured or HUD-assisted multifamily housing projects.
Leader: Chris Greer

10. **Multifamily Special Workout Assistance Team (SWAT):** for giving teams of asset managers new techniques to deal with severely troubled projects and make owners and managers make needed changes to protect the residents and the taxpayers' investment in FHA's $44 billion insured portfolio.
Leader: Vyllorya Evans

The National Performance Review (NPR) was established by President Clinton in 1993 to develop and implement strategies to make the Federal government more efficient, more responsive to customers, and less costly to taxpayers. The Hammer Awards recognize Federal workers who have made significant contributions to NPR's goals.

Deploying FHA's Mortgage Scorecard and Automated Underwriting Technologies

The U.S. Department of Housing and Urban Development (HUD) is reengineering FHA's business process to fully deploy automated underwriting (AU) technology. This AU technology includes a mortgage scorecard which is an electronic algorithm designed to assess the risk of default on a mortgage and the main component of most automated underwriting systems (AUS). The Department's Office of Policy Development and Research has developed a mortgage scorecard, which HUD plans to make available to all FHA lenders. The Department has completed technical development, and is addressing a number of implementation issues related to the most effective manner of deploying the scorecard for lender use, managing the overall functionality and operations of the scorecard, and the information technology resources needed to support FHA's automated underwriting efforts. Moreover, this effort is an example of FHA's intention to develop a comprehensive electronic interface between lenders, AUS vendors and FHA.

Mortgage scorecards such as the FHA "universal" scorecard provide an objective evaluation of the risk of default on a mortgage based on mathematical analysis of prior loan performance. The mortgage scorecard allows the mortgage insurer to more accurately and objectively assess the risk on a loan and determine if it is willing to insure that loan based on credit information and application variables.

Several private sector mortgage insurers operate mortgage scorecards as do Fannie Mae and Freddie Mac. Moreover, Freddie Mac operates a service for evaluating FHA mortgages through its AUS (*Loan Prospector*) which has been approved for commercial use on FHA mortgages by the Department. Fannie Mae's *Desktop Underwriter* and PMI Mortgage Services' pmiAURA for FHA were approved just recently.

Currently, the three AU systems described above have proprietary mortgage scorecards specifically designed to evaluate FHA loans. However, for consistency and to evaluate the risk of loans *not* scored through FHA-approved proprietary systems, FHA has developed its own mortgage scorecard. FHA intends to make its scorecard widely available to all FHA lenders. The Department intends to begin deployment of the FHA "universal" scorecard on existing private automated underwriting systems (AUS) by the end of 2000.

The Department developed optimal methodologies for mortgage scorecard deployment and loan-level data transmission with AUS vendors and mortgage lenders, as well as credit risk, portfolio management, and quality control activities.

Chart 1

FHA Single Family Mortgage Insurance

FHA Endorsements By Loan Purpose
Number and Dollar Amount

	Purpose of Loan					
	Purchase		Refinance		Total	
FY Endorsed	Number	MtgAmt ($M)	Number	MtgAmt ($M)	Number	MtgAmt ($M)
1993	564,926	$41,811	372,626	$27,015	937,552	$68,826
1994	683,747	$53,998	653,660	$46,226	1,337,407	$100,224
1995	523,174	$41,280	62,357	$4,303	585,531	$45,584
1996	662,466	$55,267	132,282	$10,816	794,748	$66,083
1997	709,448	$60,885	80,367	$6,972	789,815	$67,858
1998	836,459	$75,375	253,988	$24,734	1,090,447	$100,109
1999	926,607	$88,735	363,543	$35,201	1,290,150	$123,936
2000	846,566	$86,895	73,315	$7,332	919,881	$94,227
Grand Total	5,753,393	$504,247	1,992,138	$162,600	7,745,531	$666,846

	Purpose of Loan					
	Purchase		Refinance		Total	
FY Endorsed	Number	MtgAmt ($M)	Number	MtgAmt ($M)	Number	MtgAmt ($M)
1993	60.3%	60.7%	39.7%	39.3%	100.0%	100.0%
1994	51.1%	53.9%	48.9%	46.1%	100.0%	100.0%
1995	89.4%	90.6%	10.6%	9.4%	100.0%	100.0%
1996	83.4%	83.6%	16.6%	16.4%	100.0%	100.0%
1997	89.8%	89.7%	10.2%	10.3%	100.0%	100.0%
1998	76.7%	75.3%	23.3%	24.7%	100.0%	100.0%
1999	71.8%	71.6%	28.2%	28.4%	100.0%	100.0%
2000	92.0%	92.2%	8.0%	7.8%	100.0%	100.0%
Grand Total	74.3%	75.6%	25.7%	24.4%	100.0%	100.0%

Chart 2

FHA Single Family Mortgage Insurance

FHA Endorsements By Race of Borrower

Number and Percent

Number		FY Endorsed								
Data	Race	1993	1994	1995	1996	1997	1998	1999	2000	Grand Total
Number	White	752,565	1,032,431	398,497	548,548	520,822	706,879	812,878	534,474	5,307,094
	Black	71,936	117,908	73,604	90,056	93,578	135,776	170,192	133,547	886,597
	American Indian	3,743	5,738	3,101	4,029	4,259	5,424	5,908	3,980	36,182
	Asian American	18,856	27,407	11,820	15,481	15,948	23,252	25,400	18,119	156,283
	Hispanic	83,818	143,531	91,833	120,384	133,760	191,096	222,813	176,613	1,163,848
	Other Minority	6,093	9,717	5,932	15,321	19,770	26,294	50,935	50,194	184,256
	Unknown	541	675	744	929	1,678	1,726	2,024	2,954	11,271
MtgAmt ($M)	White	$54,765	$76,479	$30,638	$44,909	$44,132	$63,619	$76,710	$53,930	$445,182
	Black	$5,098	$8,686	$5,526	$7,108	$7,666	$12,166	$16,019	$13,439	$75,707
	American Indian	$274	$415	$235	$328	$364	$487	$565	$405	$3,072
	Asian American	$1,668	$2,421	$1,095	$1,491	$1,594	$2,486	$2,869	$2,223	$15,846
	Hispanic	$6,469	$11,323	$7,482	$10,596	$11,933	$18,484	$22,433	$18,796	$107,516
	Other Minority	$519	$861	$562	$1,578	$2,032	$2,703	$5,075	$5,107	$18,437
	Unknown	$35	$39	$46	$74	$135	$165	$265	$327	$1,086
Total Number		937,552	1,337,407	585,531	794,748	789,815	1,090,447	1,290,150	919,881	7,745,531
Total MtgAmt ($M)		$68,826	$100,224	$45,584	$66,083	$67,858	$100,109	$123,936	$94,227	$666,846

Percent		FY Endorsed								
Data	Race	1993	1994	1995	1996	1997	1998	1999	2000	Grand Total
Number	White	80.3%	77.2%	68.1%	69.0%	65.9%	64.8%	63.0%	58.1%	68.5%
	Black	7.7%	8.8%	12.6%	11.3%	11.8%	12.5%	13.2%	14.5%	11.4%
	American Indian	0.4%	0.4%	0.5%	0.5%	0.5%	0.5%	0.5%	0.4%	0.5%
	Asian American	2.0%	2.0%	2.0%	1.9%	2.0%	2.1%	2.0%	2.0%	2.0%
	Hispanic	8.9%	10.7%	15.7%	15.1%	16.9%	17.5%	17.3%	19.2%	15.0%
	Other Minority	0.6%	0.7%	1.0%	1.9%	2.5%	2.4%	3.9%	5.5%	2.4%
	Unknown	0.1%	0.1%	0.1%	0.1%	0.2%	0.2%	0.2%	0.3%	0.1%
MtgAmt ($M)	White	79.6%	76.3%	67.2%	68.0%	65.0%	63.5%	61.9%	57.2%	66.8%
	Black	7.4%	8.7%	12.1%	10.8%	11.3%	12.2%	12.9%	14.3%	11.4%
	American Indian	0.4%	0.4%	0.5%	0.5%	0.5%	0.5%	0.5%	0.4%	0.5%
	Asian American	2.4%	2.4%	2.4%	2.3%	2.3%	2.5%	2.3%	2.4%	2.4%
	Hispanic	9.4%	11.3%	16.4%	16.0%	17.6%	18.5%	18.1%	19.9%	16.1%
	Other Minority	0.8%	0.9%	1.2%	2.4%	3.0%	2.7%	4.1%	5.4%	2.8%
	Unknown	0.1%	0.0%	0.1%	0.1%	0.2%	0.2%	0.2%	0.3%	0.2%
Total Number		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Total MtgAmt ($M)		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Chart 3

FHA Single Family Mortgage Insurance

FHA Endorsements By Type of Homebuyer
Number and Dollar Amount

Number	Type of Homebuyer					
	First-Time		Repeat		Total	
FY Endorsed	Number	MtgAmt ($M)	Number	MtgAmt ($M)	Number	MtgAmt ($M)
1993	376,593	$27,764	188,327	$14,047	564,920	$41,811
1994	447,253	$35,311	236,493	$18,687	683,746	$53,998
1995	364,189	$28,677	158,984	$12,603	523,173	$41,280
1996	478,985	$39,718	183,481	$15,550	662,466	$55,267
1997	535,326	$45,769	174,122	$15,116	709,448	$60,885
1998	670,565	$60,473	165,894	$14,901	836,459	$75,375
1999	744,767	$71,046	181,840	$17,689	926,607	$88,735
2000	685,006	$70,006	161,560	$16,889	846,566	$86,895
Grand Total	4,302,684	$378,764	1,450,701	$125,482	5,753,385	$504,246

Percent	Type of Homebuyer					
	First-Time		Repeat		Total	
FY Endorsed	Number	MtgAmt ($M)	Number	MtgAmt ($M)	Number	MtgAmt ($M)
1993	66.7%	66.4%	33.3%	33.6%	100.0%	100.0%
1994	65.4%	65.4%	34.6%	34.6%	100.0%	100.0%
1995	69.6%	69.5%	30.4%	30.5%	100.0%	100.0%
1996	72.3%	71.9%	27.7%	28.1%	100.0%	100.0%
1997	75.5%	75.2%	24.5%	24.8%	100.0%	100.0%
1998	80.2%	80.2%	19.8%	19.8%	100.0%	100.0%
1999	80.4%	80.1%	19.6%	19.9%	100.0%	100.0%
2000	80.9%	80.6%	19.1%	19.4%	100.0%	100.0%
Grand Total	74.8%	75.1%	25.2%	24.9%	100.0%	100.0%

Chart 4

FHA Single Family Mortgage Insurance

First-Time Homebuyers By Race of Borrower

Number and Percent

Number		**FY Endorsed**								
Data	**Race**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**Grand Total**
Number	White	281,247	320,521	239,064	316,241	342,806	417,629	447,071	384,982	2,749,561
	Black	39,823	52,306	50,168	58,846	66,821	92,080	109,064	105,086	574,194
	American Indian	1,458	1,748	1,986	2,476	3,027	3,313	3,352	3,034	20,394
	Asian American	8,386	10,060	8,162	9,894	11,294	14,925	15,384	14,342	92,447
	Hispanic	43,265	60,009	61,101	82,549	97,568	130,316	147,786	144,325	766,919
	Other Minority	2,412	2,609	3,707	8,972	13,805	12,299	22,110	32,526	98,440
	Unknown	2	0	1	7	5	3	0	711	729
MtgAmt ($M)	White	$20,436	$24,752	$18,419	$25,724	$28,811	$36,901	$41,938	$38,674	$235,655
	Black	$2,798	$3,980	$3,785	$4,571	$5,394	$8,079	$10,142	$10,511	$49,259
	American Indian	$108	$133	$150	$199	$257	$288	$318	$308	$1,760
	Asian American	$783	$985	$763	$946	$1,117	$1,558	$1,743	$1,761	$9,656
	Hispanic	$3,435	$5,190	$5,192	$7,307	$8,740	$12,374	$14,693	$15,339	$72,270
	Other Minority	$204	$272	$368	$970	$1,448	$1,273	$2,213	$3,343	$10,091
	Unknown	$0	$0	$0	$1	$1	$0	$0	$72	$74
Total Number		376,593	447,253	364,189	478,985	535,326	670,565	744,767	685,006	4,302,684
Total MtgAmt ($M)		$27,764	$35,311	$28,677	$39,718	$45,769	$60,473	$71,046	$70,006	$378,764

Percent		**FY Endorsed**								
Data	**Race**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**Grand Total**
Number	White	74.7%	71.7%	65.6%	66.0%	64.0%	62.3%	60.0%	56.2%	63.9%
	Black	10.6%	11.7%	13.8%	12.3%	12.5%	13.7%	14.6%	15.3%	13.3%
	American Indian	0.4%	0.4%	0.5%	0.5%	0.6%	0.5%	0.5%	0.4%	0.5%
	Asian American	2.2%	2.2%	2.2%	2.1%	2.1%	2.2%	2.1%	2.1%	2.1%
	Hispanic	11.5%	13.4%	16.8%	17.2%	18.2%	19.4%	19.8%	21.1%	17.8%
	Other Minority	0.6%	0.6%	1.0%	1.9%	2.6%	1.8%	3.0%	4.7%	2.3%
	Unknown	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.0%
MtgAmt ($M)	White	73.6%	70.1%	64.2%	64.8%	63.0%	61.0%	59.0%	55.2%	62.2%
	Black	10.1%	11.3%	13.2%	11.5%	11.8%	13.4%	14.3%	15.0%	13.0%
	American Indian	0.4%	0.4%	0.5%	0.5%	0.6%	0.5%	0.4%	0.4%	0.5%
	Asian American	2.8%	2.8%	2.7%	2.4%	2.4%	2.6%	2.5%	2.5%	2.5%
	Hispanic	12.4%	14.7%	18.1%	18.4%	19.1%	20.5%	20.7%	21.9%	19.1%
	Other Minority	0.7%	0.8%	1.3%	2.4%	3.2%	2.1%	3.1%	4.8%	2.7%
	Unknown	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.0%
Total Number		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Total MtgAmt ($M)		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

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The Report of the Baltimore Task Force on Predatory Lending

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