Hardest Hit Fund's Greatest Hits

by Kaitlyn Snyder | October 2016

INTRODUCTION

In 2010, during the midst of the foreclosure crisis and the Great Recession, President Obama and the U.S. Department of the Treasury (Treasury) launched the Housing Finance Agency Innovation Fund, more commonly known as the Hardest Hit Fund (HHF). HHF was authorized under the Troubled Asset Relief Program in the Emergency Economic Stabilization Act of 2008. HHF programs were designed and administered by Housing Finance Agencies (HFAs) in the 18 hardest hit states and the District of Columbia (shown in Figure 1), as determined by the presence of either (a) a rise in unemployment rates to the national average or above, or (b) a decline in home prices of more than 20 percent.[1]

HFAs had the flexibility to design their own programs to meet their specific housing market needs, with oversight from Treasury. Most of these programs were aimed at helping unemployed homeowners remain in their homes while they searched for new employment, as well as assisting those homeowners who owed more on their mortgage than their home was worth. HHF funding has been used for:

- Unemployment mortgage assistance
- Mortgage reinstatement assistance
- Principal reduction
- Transition assistance
- Second lien elimination/lien extinguishment
- Short sale assistance
- Demolition and greening of vacant and blighted properties
- Down payment assistance

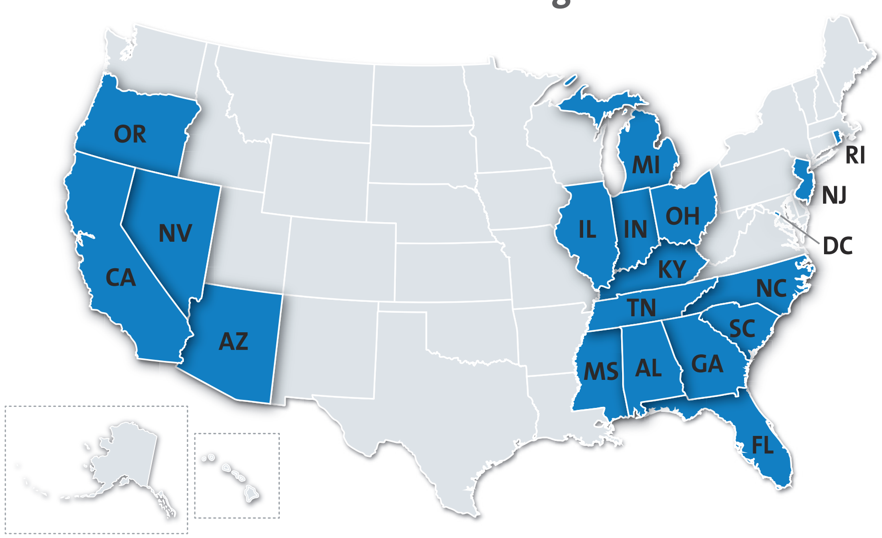
Best Practices

During interviews with Treasury and HFA staff who administer HHF, several best practices emerged. All interviewees identified the powerful collaboration between Treasury and the HFAs as a key component in the success of the program. Partially due to the limited number of HFAs administering the funds, Treasury was able to devote significant staff time to working with individual HFAs to design programs and troubleshoot problems. Interviewees also noted that their fellow HHF recipients served as sources of ideas and technical assistance. While they each had their own specific market needs and challenges, HHF recipients faced many similar issues. The early adopting states (North Carolina, Ohio, Oregon, Rhode Island, and South Carolina) were especially helpful as other states, added later, looked to model their programs on these existing successful programs. The HFAs organized regular calls and meetings amongst themselves to share best practices and troubleshoot challenges.

In the same vein of partnership, HFAs identified their relationships with mortgage servicers as a critical element of success. Many HFAs worked with mortgage servicers very early in the process when designing their programs to ensure the servicers would accept the loan modifications, principal reductions, lien extinguishments, and other programs under HHF. This relationship continued throughout the program and many banks and mortgage servicers devoted staff to handling HHF cases. These partnerships were vital across all the loss-mitigation programs offered during the foreclosure crisis and led to several changes within the banking and mortgage servicing industry which are beyond the scope of this paper.[2,3]

FIGURE 1

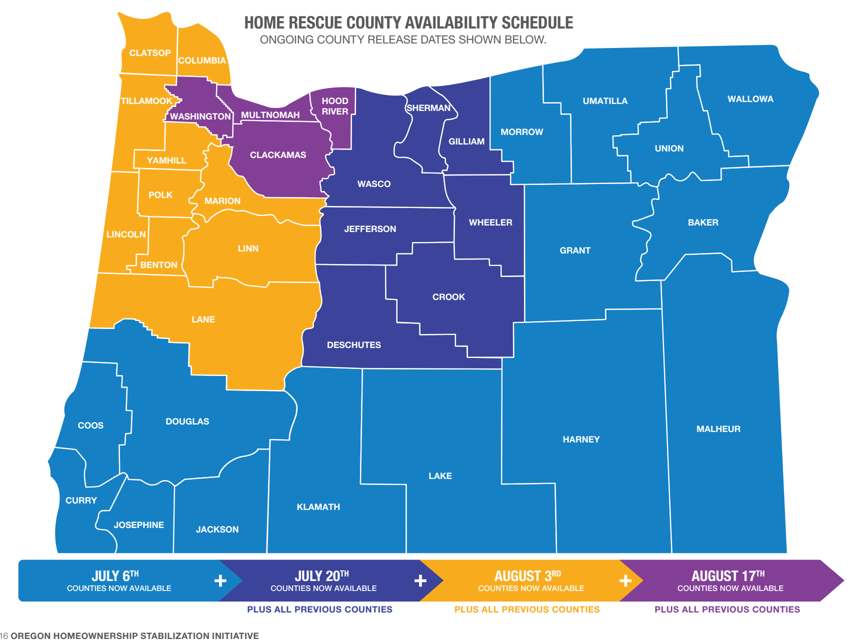
Locations Receiving HHF



Source: National Housing Conference

Another success of the program came from the service delivery mechanism. HFAs implementing HHF were able to leverage their local knowledge to enhance their pre-existing expertise in housing finance. Speed was essential, so using existing structures was the quickest path to delivering housing help. This approach guided the use of existing housing counseling networks to get the word out to potential beneficiaries and help process applications. Many HFAs partnered with state and local agencies delivering unemployment insurance benefits and added HHF information flyers in layoff benefits packages to inform potential eligible recipients.

FIGURE 2 Availability Schedule in Oregon State



Source: Oregon Homeownership Stabilization Initiative

Perhaps the greatest virtue of the program was its flexibility, which allowed HFAs to respond to their changing market needs quickly. Treasury was able to work with the 18 states and DC to design and continuously update over 80 different programs individually tailored to best serve the needs of their beneficiaries. In addition, the HFAs and Treasury were able to modify or cancel programs based on real-time data and feedback from beneficiaries. This process required a significant amount of time and resources from both Treasury and the HFAs, and was a critical component in the overall success of HHF.

Innovative Practices

One particularly effective innovation came from the State of Oregon, which introduced an "availability schedule"[4] for phasing in the counties that were eligible to apply for HHF. As illustrated in Figure 2, the counties in light blue are considered rural and have significantly smaller populations and less housing counseling capacity when compared with the purple counties, which are the most densely populated in the state. Eligible recipients in these more rural counties were allowed to apply for funding first, followed by the remaining counties in order of increasing population density (dark blue, yellow, and then finally purple on the map). Oregon HHF administrators designed the availability schedule in response to a concern that people living in the more densely populated areas would apply first and use up all the available funding before people living in more rural areas even heard about the program. The Oregon HFA worked with local housing counseling agencies to help build housing counseling capacity and develop a marketing strategy to ensure that HHF funds were allocated equitably across the entire state.

Studies have shown that removing blighted structures can decrease crime rates, stabilize surrounding properties, and reduce overall foreclosures.[5,6] In response to this emerging body of literature, Treasury allowed HHF to be used for the demolition and greening (the process of cleaning land and then planting, caring for, and maintaining vegetation) of vacant and blighted properties. In the states using HHF for demolition and greening, the focus has expanded to stabilize neighborhoods where a few homeowners are surrounded by vacant and abandoned buildings that drive down property values, placing them at risk of default or foreclosure. The success of this initiative has yet to be thoroughly evaluated and more research is needed in this area.[7]

A few HFAs (those in Arizona, Florida, Illinois, Kentucky, North Carolina, and Rhode Island) have begun to offer down payment assistance to first-time homebuyers purchasing properties in areas hit hardest by the foreclosure crisis. Through the second quarter of 2016, 6,973 borrowers had received down payment assistance.[8] The success of this initiative also has yet to be thoroughly evaluated.

Obstacles

All interviewees noted that one of the most difficult aspects of administering HHF was the reporting. HFAs were given the choice of purchasing an automated software system or building a system of their own that met Treasury's requirements. This challenge of developing and deploying a reporting system, customized to individual program needs, was a hurdle that all HHF recipients had to face very early in the process. While one of the greatest strengths of HHF has been its flexibility in adapting programs to meet changing market needs, that flexibility has meant reporting mechanisms also had to update as programs were changed. Many HFAs had generally similar programs (for example, almost every HFA had some version of unemployment mortgage assistance), but they all had their own unique eligibility requirements and benefits to homeowners that made national data comparison difficult.

Another challenge was helping consumers differentiate between legitimate federal help and fraudulent mortgage scams (many of which arose after the launch of HHF). To combat this issue, HFAs used their state seals and noted on their websites and on all printed materials that the program was funded through the U.S. Department of Treasury. Several HFAs featured state and local elected officials in commercials and robo-calls to assure potential recipients that the program was legitimate. Reports from the Special Inspector General for the Troubled Asset Relief Program (SIGTARP) are available to provide more information on fraud related to HHF.[9]

Some HFAs were more successful than others in deploying assistance to homeowners facing foreclosure. For the purpose of this research brief, NHC identified and interviewed high-performing and innovative HFAs. SIGTARP was able to identify when instances of waste, fraud and abuse occurred within HFAs, indicating that monitoring systems are working. Reports from SIGTARP are available detailing their findings as well as Treasury's responses.[10]

HFAs had varying relationships with mortgage servicers; some HFAs had already interacted regularly with servicers, while others engaged with them for the first time for HHF. Building these relationships took time and effort. HFAs first worked with servicers to design programs the servicers would accept. They then used Common Data File (CDF) to transmit loan level details of individual borrowers via secure email. HFAs used CDF to contact servicers for everything from initial acceptance and validation of borrowers to completion of monthly payments. There are millions of files for HHF — Oregon alone has over 550,000 files — and keeping track of all the files can be difficult.

In addition, some servicers would accept some types of assistance from HHF and refuse others; for instance, many servicers were initially opposed to principal reduction. One interviewee suggested that in the event of another foreclosure crisis, Treasury should require servicers to accept all forms of assistance if they are going to accept any HHF money. During times of difficulty, HFAs were able to engage Treasury staff to encourage cooperation as they worked with mortgage servicers.

Finally, the very nature of the foreclosure crisis meant that every homeowner was in a different situation, each with their own highly individualized case. Interviewees described cases as complicated and nuanced with not a lot of standardization. This required a great deal of patience and attention from the HFAs and servicers and made it difficult to implement standardized procedures.

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Moving Beyond the Loans to See the People

Across 18 states and DC, HHF has helped 263,002 homeowners avoid foreclosure and stay in their homes.[11] As of the second quarter of 2016, about $5.3 billion of the allocated $9.6 billion* has been spent, and the remaining funds will continue to help homeowners until 2020.

While these numbers are impressive in their own right, HHF has done so much more than help homeowners avoid foreclosure. In the words of one interviewee, this program helped to "not only avoid foreclosure but to stabilize communities." This work required significant collaboration among homeowners, housing counselors, HFAs, Treasury, servicers, and leaders at the local level.

When asked to name the greatest strength of the HHF program, several HFA interviewees noted specific people on their staff. While those specific persons may not be replicable, the comment highlights the intensely personal nature of this work, which requires dedication and a commitment to helping homeowners avoid foreclosure.

Ultimately, HHF has created a successful model for quickly building state and federal partnerships to stabilize both homeowners and communities during the midst of a foreclosure crisis. The lessons learned from the experiences of HFAs and Treasury in administering the HHF program should guide policy decisions in the event of another wave of foreclosures, either nationally or regionally.

*HHF was originally allocated $7.6 billion through 2017. In 2015, the program was extended for three years and allocated an additional $2 billion.

ENDNOTES

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