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Congressional Task Force on Housing Stabilization

White Paper on the Federal Response to the Housing Crisis and Regional Disparities

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Introduction

The Members of the Housing Stabilization Task Force are dedicated to protecting consumers and homeowners during this difficult economic environment. The Members are focused on pursuing solutions that would improve our nation's housing sector in a measurable way. To further this goal, the Task Force commissioned this white paper to review the federal response to the housing crisis.

Specifically, this white paper includes the following information: 1) an overview of current national housing conditions; 2) a more targeted analysis of housing conditions in certain selected states that have been especially affected by the housing downturn; and 3) a description of how current federal foreclosure prevention programs have been performing, with a particular focus on how regional conditions may contribute to the effectiveness of these foreclosure prevention programs.

Key Findings and Recommendations

After a close examination of the federal response to the housing crisis, the Task Force recommends the following:

- Efforts should continue to localize foreclosure relief programs. The foreclosure crisis is national in scope, but the prevalence of "trigger events" is unevenly distributed among geographic regions of the country. Empowering state and local governments to facilitate foreclosure relief efforts will increase the likelihood that programs are well-targeted to the primary drivers of foreclosure in each respective region. We encourage the Administration to explore methods to localize foreclosure relief programs.

- The Administration and Congress must take immediate steps to speed the implementation and distribution of Hardest Hit Fund programs. These state-designed programs will speed relief to homeowners through programs targeted at foreclosure drivers identified by local communities.

- High rates of unemployment and negative equity coincide with high rates of foreclosure and seriously delinquent mortgages. Implementation of programs designed to deal with these issues, such as temporary mortgage assistance programs for the long-term unemployed and principal reduction programs, could prove critical to revitalizing housing markets in regions displaying these traits.

- The federal government's principal program for foreclosure prevention and loan modification, the Home Affordable Modification Program (HAMP), has performed inadequately by every measure. Promising steps have been taken to address program deficiencies, such as the Principal Reduction Alternative and Home Affordable Unemployment Program, but more time and data are required to evaluate new program components. As HAMP is the flag-ship federal program designed to reduce the number of foreclosures, it is essential that Administration makes any necessary changes a top priority to ensure HAMP becomes a fully functional and effective program.

Overview of U.S. Housing and Mortgage Market Conditions

During the first half of the decade of the 2000s, measures of housing conditions indicated a healthy and active housing market. In general, house prices were rising, houses sold quickly, mortgages were available at affordable rates, homeownership rates were increasing, and foreclosures were low. Beginning around the middle of 2006, however, mortgage delinquency and foreclosure rates began to increase to their highest levels in many years. Since 2008, other aspects of the housing market and the broader economy have also experienced significant turmoil. Some housing and macroeconomic trends, such as falling house prices or rising unemployment, may contribute to or exacerbate mortgage default rates. This section describes and interprets certain key national housing market and macroeconomic indicators, with a particular focus on those connections to mortgage default rates.

National Housing Measures

House Prices

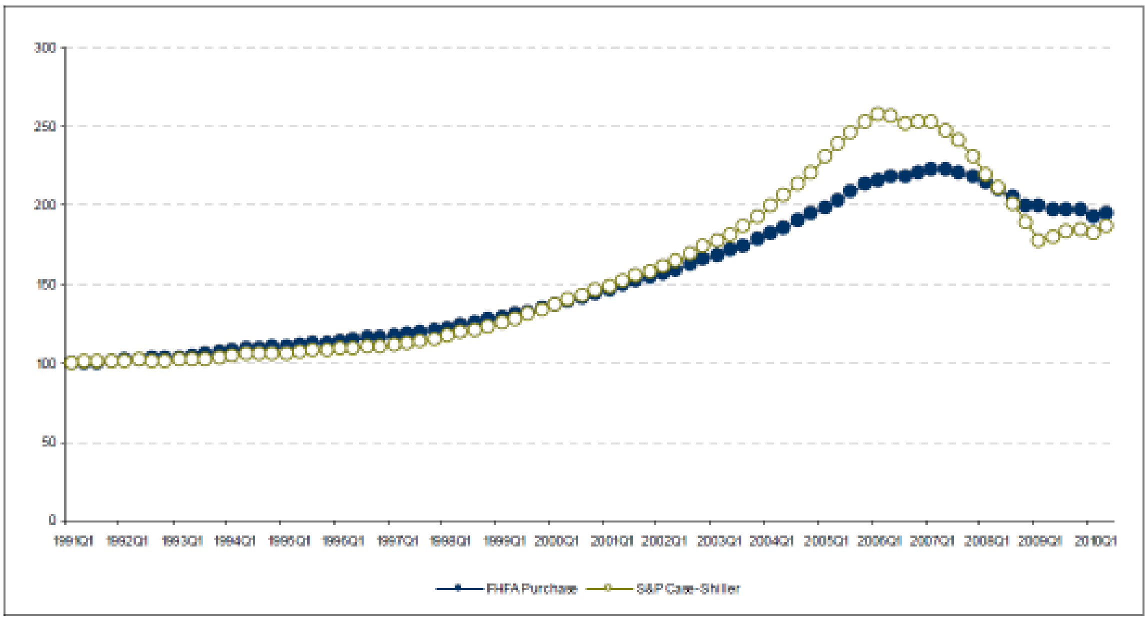
Much attention has been paid to the trajectory of house prices in recent years in the wake of steep increases in foreclosure rates. When house prices fall, as they have in many (but not all) regions of the country in recent years, new homebuyers benefit, but existing homeowners can be negatively affected in several ways. Perhaps most obviously, homeowners' balance sheets deteriorate as they face reductions in the amount of equity that they have in their homes. Highly-leveraged mortgage borrowers may even experience negative equity, which occurs when the value of the home drops below the outstanding mortgage balance. Negative equity makes it difficult for borrowers to solve any mortgage problems they may have by selling the properties, and it also limits the ability of a household to relocate in response to changes in personal circumstances or job opportunities. Hence, foreclosures are likely to increase when declines in house prices lead to an increase in borrowers with negative equity in their houses. Often, the impact of falling house prices on equity will depend largely on the steepness of the decline. Borrowers in regions that experience steep house price declines are more likely to be in a negative equity position, for example, than homeowners in regions with house prices that are declining more gradually. The impact of falling house prices on a borrower's equity may be exacerbated if the downpayments were initially low; if mortgage products such as interest-only or negative amortization loans that delay the amortization of principal were used; or if borrowers pulled equity out of their homes via cash-out refinances.

Two measures of house prices are the Federal Housing Finance Agency's (FHFA) House Price Index (HPI) and the S&P/Case-Shiller Index. Indices measure changes in house prices from a base year, and they are available for a variety of geographies (such as nationally, and for states and metropolitan statistical areas) and time frequencies (monthly or quarterly). Some of these measures are seasonally adjusted. The HPI provides state-level data and only includes homes with conforming mortgages, which are mortgages that are eligible to be bought by Fannie Mae and Freddie Mac. This means that no houses with mortgages above the Fannie Mae-Freddie Mac conforming loan limit are included in the HPI, so most higher-priced homes are excluded from this index. Therefore, the HPI will miss the behavior of the prices of these higher-priced homes. The S&P Case-Shiller Index does include non-conforming mortgages; however, its data are only available for the nation as a whole and for certain metropolitan areas, but not for states. According to both the HPI and the S&P/Case-Shiller Index, house prices in the United States as a whole rose at a slowly increasing rate during the 1990s and the first part of the 2000s, until they peaked sometime between the second quarter of 2005 (FHFA) and the first quarter of 2006 (S&P/Case-Shiller).[1]

Since that time, house prices have declined quite a bit according to both indices, but they have declined more steeply according to the S&P/Case-Shiller Index. The Case-Shiller Index also reached a higher peak than the HPI. **Figure 1** illustrates these changes in prices as calculated by the FHFA and S&P/Case-Shiller. These numbers reflect FHFA's purchase-only index, which includes homes purchased but excludes refinance transactions.

Figure 1. House Prices in the United States

1991 Q1 - 2010 Q2



Source: Figure created by CRS based on data from the FHFA Purchase-Only House Price Index and S&P Case-Shiller Index.

CoreLogic, a firm that provides economic data, produces quarterly estimates of the number of mortgaged residential properties that are in a negative equity position.[2] According to CoreLogic, 23% of all U.S. residential properties with mortgages had negative equity in the second quarter of 2010, down from 24% in the first quarter. An additional nearly 5% of properties with mortgages had between 0% and 5% equity,

[1] U.S. Federal Housing Finance Agency, *Purchase Only Indexes: U.S. Summary Through 2010Q2*, http://www.fhfa.gov/webfiles/16496/2q10POSummary.xls, and Standard & Poor's *S&P/Case-Shiller Home Price Indices: U.S. National Values*, http://www.standardandpoors.com/servlet/BlobServer?blobheadername3=MDT-Type&blobcol=urldocumentfile&blobtable=SPComSecureDocument&blobheadervalue2=inline%3B+filename%3Ddownload.xls&blobheadername2=Content-Disposition&blobheadervalue1=application%2Fexcel&blobkey=id&blobheadername1=content-type&blobwhere=1245214513220&blobheadervalue3=abinary%3B+charset%3DUTF-8&blobnocache=true. For an explanation of the differences between the two indices, see Andrew Leventis, *A Note on the Differences between the OFHEO and S&P/Case-Shiller House Price Indexes*, July 25, 2007, http://www.fhfa.gov/webfiles/670/notediff2.pdf.

[2] CoreLogic, "New CoreLogic® Data Shows Second Consecutive Quarterly Decline in Negative Equity," August 26, 2010.

suggesting that the owners of these properties are in danger of negative equity in the future if house prices continue to decline.

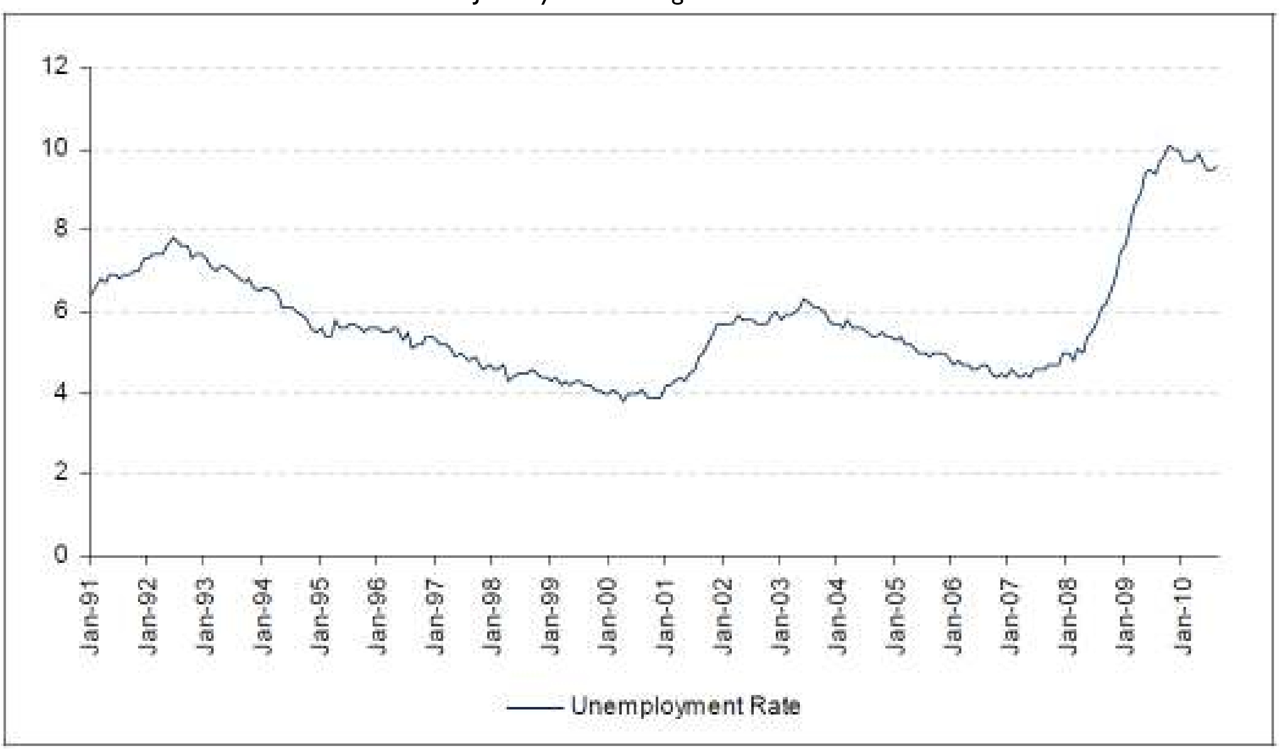
Unemployment

Unemployment rates can affect the housing market in a number of ways. For example, high unemployment can contribute to mortgage delinquencies or foreclosures because unemployed borrowers are less likely to have the income to make their mortgage payments. Furthermore, unemployment can also depress housing demand. People may put off buying a home or moving to a different home even if they are employed, if they fear losing their jobs. As the demand for housing falls, house prices may fall even further and exacerbate the negative equity problem. The speed at which employment recovers may also be slower if unemployed homeowners are unable to sell their homes and move to places with better employment prospects.

The Bureau of Labor Statistics (BLS), part of the Department of Labor, reports unemployment rates monthly. **Figure 2** shows the monthly unemployment rate for the U.S. as a whole over the period from 1991 to the present. From a high of nearly 8% in mid-1992, the unemployment rate trended down for a number of years until the early part of the 2000s. Unemployment then rose from about 4% in December 1999 to around 6% in December 2002, and remained close to 6% for several months before falling again for a number of years beginning around the end of 2003. The unemployment rate began to rise again in the early part of 2008, reaching a high of 10.1% in October 2009. The unemployment rate fell below 10% again at the beginning of 2010, but has remained at or above 9.5% in every month since then.

Figure 2. U.S. Unemployment Rate

January 1991 – August 2010



Source: Figure created by CRS based on data from the Bureau of Labor Statistics.

While an increasing incidence of unemployment may lead to increased mortgage foreclosures, another factor that could contribute to increased foreclosures is the length of time that a spell of unemployment lasts. The longer the spell of unemployment, the more likely borrowers will have trouble making mortgage payments, especially as any savings may be depleted if the unemployment persists over a long period. According to BLS, the average duration of unemployment has been increasing. In August 2010, of those people who were unemployed, 42% had been unemployed for 27 or more weeks, which was nevertheless down from nearly 45% in July and 46% in May.[3]

Home Builder Sentiment

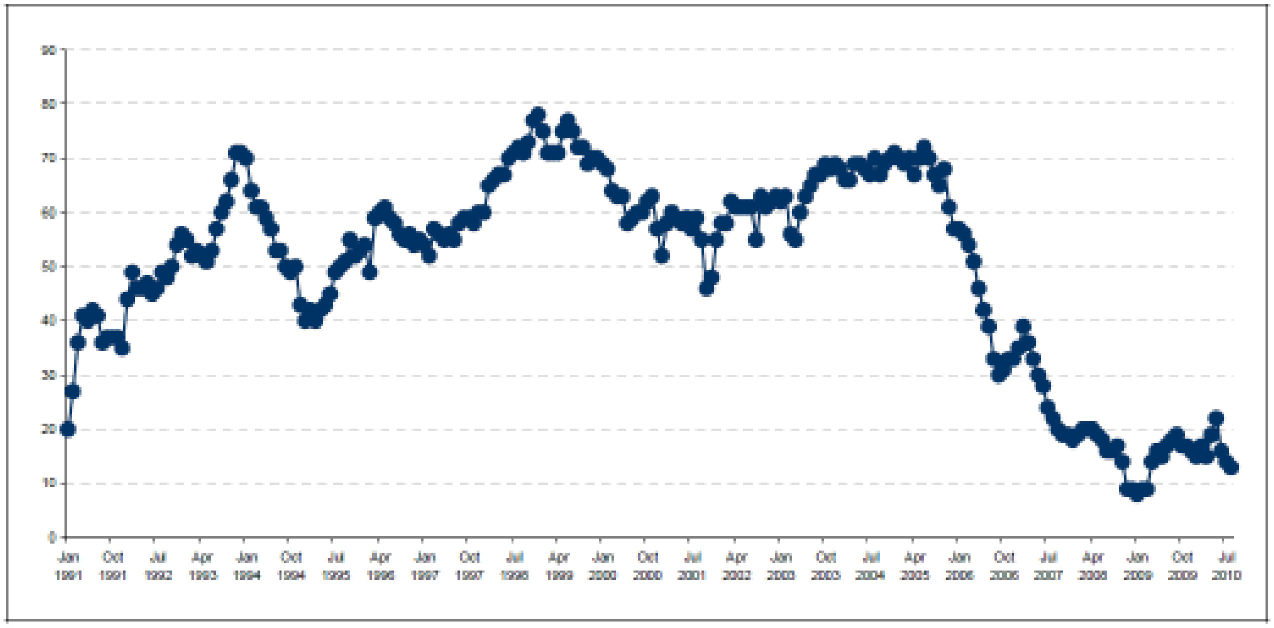
In addition to discouraging potential homebuyers from making new purchases, a higher unemployment rate may translate into pessimism regarding the future outlook for residential construction. The National Association of Home Builders (NAHB)-Wells Fargo Housing Market Index (HMI) is a survey of NAHB member sentiment about the sale of new homes. Home builder sentiment is a forward indicator of new construction of single family and multifamily units. Residential construction is traditionally an important contributor to U.S. employment and output. A booming construction sector prior to 2006 appears to have resulted in an overhang of residential fixed investment, which may weigh on the housing market for some time to come, as well as on employment in the construction industry. Low levels of home builder sentiment suggest that it will be some time before residential construction recovers.

Over the period from 1985 through September 2007, the lowest sentiment point was 20 in 1991. From that point, sentiment generally rose for a number of years, reaching a high of 71 at the end of 1993 before falling again, and then reaching a high of 77 in mid-1999. The index then declined again for several years and then rose again to 71 at the end of 2004. Beginning in June 2005, the HMI began another downward trend. By October 2007, the HMI reached a new low of 19, and then remained at or below 20 until May 2010, when it reached 22. Since May 2010, the HMI has remained at a historically low level. **Figure 3** plots the HMI.

3 U.S. Department of Labor, Bureau of Labor Statistics, "Table A.12. Unemployed Persons by Duration of Unemployment," Economic News Release, September 3, 2010, http://www.bls.gov/news.release/empsit.t12.htm.

Figure 3. NAHB-Wells Fargo Housing Market Index

January 1991 – July 2010



Source: Figure created by CRS based on data from the NAHB-Wells Fargo Housing Market Index

Vacancy Rates

The U.S. Census Bureau reports vacancy rates on owner-occupied housing. High vacancy rates suggest that there are many vacant homes that could be offered for sale when housing markets become more favorable. A large supply of existing homes offered for sale may contribute to house price declines and could discourage future new home construction for some period of time during the economic recovery.

As **Figure 4** illustrates, the national vacancy rate has been 2.0% or more since the fourth quarter of 2005; this is the highest rate since the Census Bureau started collecting these data in 1956.[4] Currently, the vacancy rate is about 2.5%, which is a decline from 2008 when the rate was 2.8-2.9% for the entire year.

In 2004, vacancy rates began to increase in the Midwest region.[5] In 2005, the rates in the South and Northeast increased, and in 2006 the rates in the West increased. Vacancy rates remain high in the Midwest, South, and West; they have begun to decline in the Northeast.

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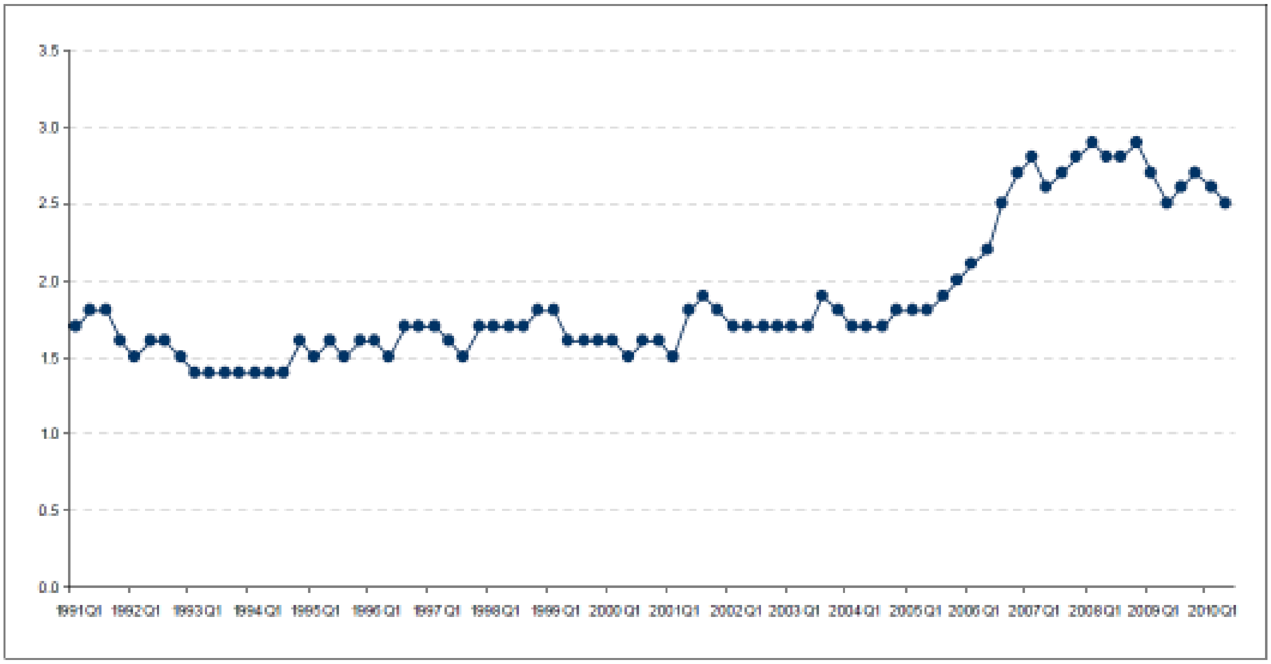
[4] U.S. Census Bureau, "Table 2. Quarterly Homeowner Vacancy Rates: 1956 to Present," *Housing Vacancies and Homeownership (CPS/HVS)*, http://www.census.gov/hhes/www/housing/hvs/historic/files/histtab2.xls.

[5] Census reports vacancy rates for four areas: Midwest, West, South, and Northeast.

Figure 4. U.S.Vacancy Rate

1991 Q1 – 2010 Q2



Source: Figure created by CRS based on data from the U.S. Census Bureau.

Similarly, the National Association of Realtors (NAR) reported that in July the inventory of houses available for sale increased 2.5% to 3.98 million units, which is a 12.5 month supply of existing homes at the current pace of sales, up from an 8.9 month supply in June.[6] NAR reports that the peak housing inventory available for sale was 4.58 million units in July 2008.

U.S. Mortgage Markets

Mortgage delinquencies and foreclosures have been increasing in the United States since around the middle of 2006. Although subprime mortgages were the first group of mortgages to show sharp increases in foreclosures, all types of mortgages, including prime mortgages and government-insured mortgages such as those insured by the Federal Housing Administration (FHA) and the Veterans Administration (VA), have also exhibited dramatically increased rates of foreclosure. Prime and subprime adjustable-rate mortgages (ARMs) have had higher serious delinquency rates than prime and subprime fixed-rate mortgages (FRMs), respectively.[7]

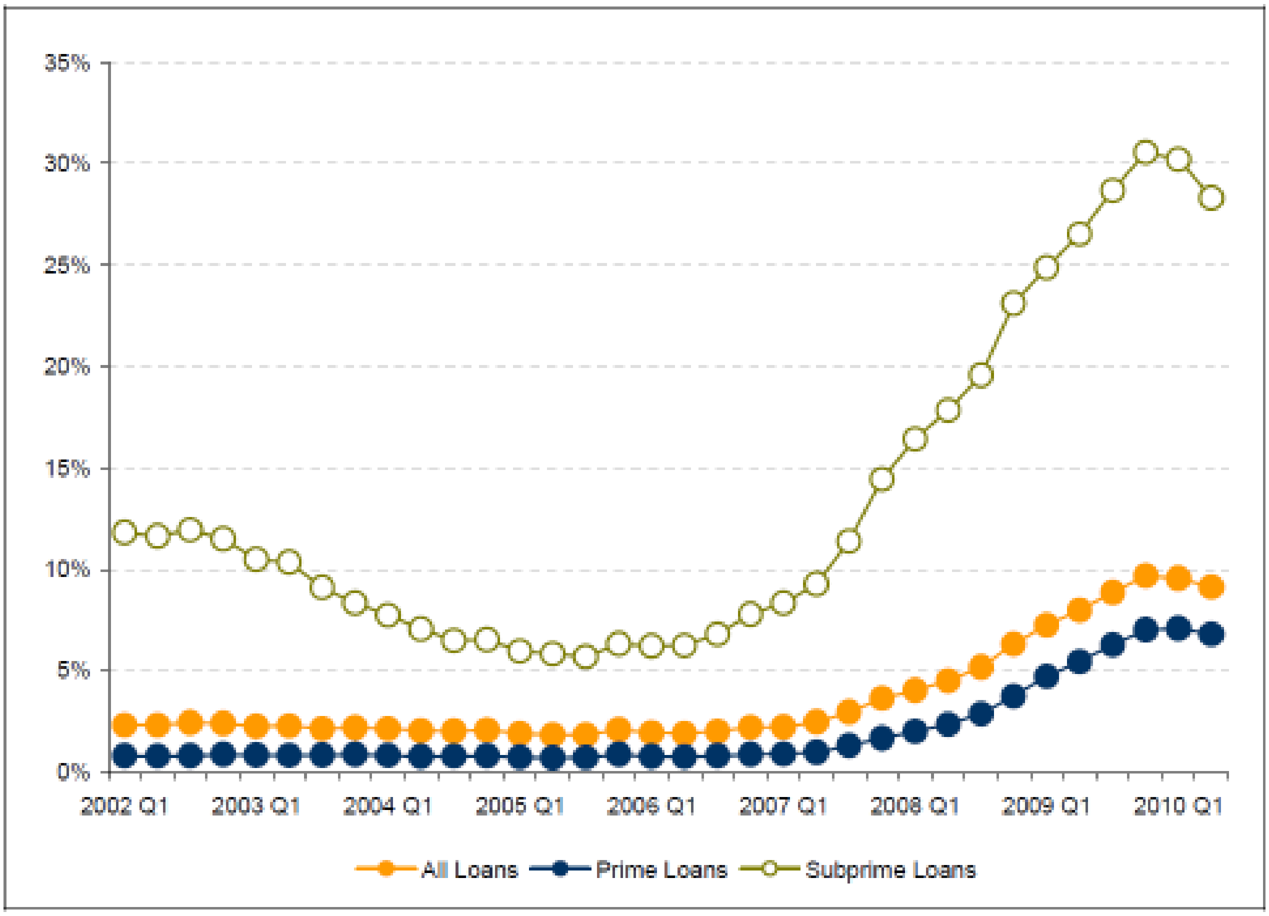
[6] National Association of Realtors, "July Existing-Home Sales Fall as Expected but Prices Rise," press release, August 24, 2010, http://www.realtor.org/press_room/news_releases/2010/08/ehs_fall.

[7] A seriously delinquent mortgage is 90 days or more delinquent or in the foreclosure process, but the foreclosure has not been completed. This memo generally examines serious delinquency rates rather than foreclosure rates; this is because nearly all loans that are 90+ days delinquent could be in the foreclosure process, but for a number of reasons some may not yet have had the foreclosure process initiated. These reasons include differences in when banks move to foreclosure, differences in state foreclosure processes, and the existence of foreclosure prevention programs that may require a delay in beginning the foreclosure process until a mortgage can be evaluated for the program.

Figure 5 illustrates that, since 2002, the serious delinquency rate was substantially higher for subprime mortgages than for prime mortgages. Between 2002 and 2005, the difference between the serious delinquency rates for prime and subprime mortgages narrowed because of declining subprime serious delinquency rates. One reason for the decline in serious delinquency rates was that borrowers (prime or subprime) experiencing financial difficulties could often take advantage of increasing house prices to sell their homes quickly at a profit. During the recession, the difference between prime and subprime delinquency rates has increased from about 5 to 24 percentage points by the end of 2009. Since the first quarter of 2009, the subprime serious delinquency rate has been 25% or more. Both the prime and subprime serious delinquency rates have shown some signs of flattening or decreasing recently; however, these rates at the national level are still quite high compared to several years ago.

Figure 5. Serious Delinquency Rates for All, Prime, and Subprime Mortgages

2002 Q1 – 2010 Q1



Source: Figure created by CRS based on data from the Mortgage Bankers' Association

Other statistics show greater variability, but demonstrate a similar change in the second half of the decade of the 2000s. For example, Fannie Mae's single-family 90+ days mortgage delinquency rate was less than 0.75% from 1991 until 2005, when it was 0.79%. In 2006, the rate declined to 0.65%, but it rose to 0.98% in 2007, 2.42% in 2008, and 5.38% in 2009, settling slightly to 4.99% in June 2010.[8] Freddie Mac's

[8] FHFA, *Report to Congress: 2009*, p. 140, 157, http://www.fhfa.gov/webfiles/15784/FHFAReportToCongress52510.pdf; Fannie Mae, *Monthly Summary*, July 2010, http://www.fanniemae.com/ir/monthly/index.jhtml; and, Freddie Mac, *Monthly Volume Summary,* July 2010, http://www.freddiemac.com/investors/volsum/.

delinquency rate was similar. Historically, the serious delinquency rates at Fannie Mae and Freddie Mac have usually been much lower than the national rate for prime mortgages.

Not all foreclosures are caused by the same reasons. Mortgage borrowers may find themselves facing foreclosure due to a number of possible "trigger events." Such trigger events traditionally include a loss of income or increase in expenses due to reasons such as unemployment, major changes in family structure (such as through divorce or death), or major medical expenses, for example.

In recent years, trigger events such as upwardly resetting mortgage terms may also have been important drivers of foreclosure. As non-traditional mortgages became more common, more borrowers took out adjustable-rate mortgages (ARMs), mortgages with low teaser interest rates, interest-only mortgages, or negative amortization mortgages, all of which carry either the risk or the certainty of future increases in monthly mortgage payments. ARMs may result in higher mortgage payments if interest rates increase, but in the current low interest rate environment, the interest rates on many ARMs have actually decreased. Mortgages with low teaser rates, however, will generally result in higher mortgage payments when the initial low-interest rate period ends. Interest-only or negative amortization mortgages will result in payment increases for the borrower when he or she begins to pay down the principal balance of the loan, unless the borrower refinances or otherwise pays off the mortgage before this happens. Subprime mortgages were more likely to carry many of the risks associated with these mortgage features, although some prime mortgages included these features as well.

A negative equity situation in isolation is not usually considered a sufficient reason for foreclosure and is not usually considered a trigger event.[9] Negative equity, however, is generally considered to be a necessary condition for foreclosure given that a borrower with equity in his home should theoretically be able to sell the home in response to a trigger event rather than go to foreclosure.

The risks presented by changing personal circumstances have always existed for anyone who took out a loan. With the exception of unemployment, the prevalence of such events are unlikely to have changed dramatically in recent years, suggesting that life events such as changes in family structure or medical problems are probably not the primary drivers of the recent increase in delinquency and foreclosure rates (although, as always, these are certainly driving foreclosures for some subset of households). Macroeconomic trends, such as falling home prices and increasing unemployment, may make families more vulnerable to losing their homes for these personal reasons. The recent fall in home values in many regions of the country that has left some homeowners owing more than the value of their homes makes it difficult for homeowners to sell their homes in order to avoid a foreclosure, and it increases the incentive for homeowners to walk away from their homes (so-called "strategic default") if they can no longer afford their mortgage payments. Similarly, increasing unemployment and the resulting income loss makes it difficult for many families to keep up their monthly mortgage payments.

[9] Negative equity can itself lead to foreclosure through so-called strategic default, in which borrowers who can afford to continue making their monthly mortgage payments choose to stop making payments and lose the home to foreclosure rather than continue paying on a mortgage that is significantly higher than the home is worth. Recent research on mortgage defaults sponsored by the Federal Reserve Bank of Richmond finds that a "non-negligible" percentage of mortgage defaults are strategic, i.e., because of the decline in house prices, borrowers are walking away from mortgages that they can afford. This study also cites earlier research to the contrary. See Andra C. Ghent and Marianna Kudlyak, *Recourse and Residential Mortgage Default: Theory and Evidence from U.S. States*, Federal Reserve Bank of Richmond, Working Paper No. 09-10, July 7, 2009, pp. 2-3, http://ofheo.gov/webfiles/15051/website_ghent.pdf.

Subprime mortgages were the first mortgages to start showing higher-than-usual delinquency and foreclosure rates, suggesting that the initial increase in delinquencies was probably caused by issues that disproportionately affected subprime mortgages. Such issues could include changing loan terms, poor borrower credit quality, faulty expectations, or in some cases perhaps even fraud on the part of either the borrower or the lender. However, as the broader economy has declined, delinquencies and foreclosures on prime mortgages have also increased to much higher than usual rates, suggesting that factors such as high unemployment combined with falling home prices may be exacerbating the foreclosure problem in various areas of the country.

Overview of Housing Market Conditions in Selected States

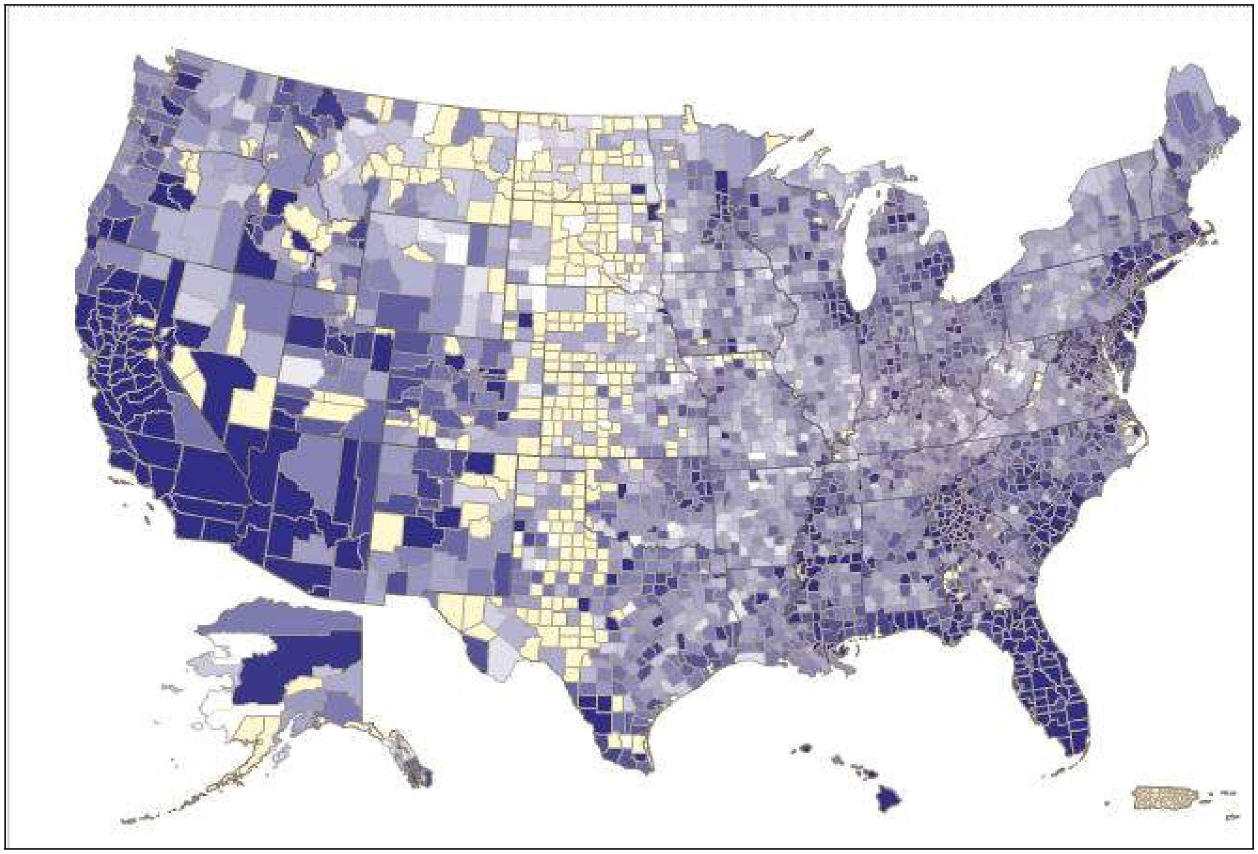
Housing conditions are not uniform across the United States. This section examines housing market conditions in certain selected states that have been especially affected by the housing downturn and/or have experienced particularly high mortgage delinquency and foreclosure rates. The states that are examined in this study are Arizona, California, Florida, Michigan, Nevada, New Jersey, and Ohio.

This section first provides an overview of mortgage delinquency rates, house price declines, negative equity, and mortgage market developments in these selected states as a whole. It then looks more closely at the trajectories of house prices and unemployment, two important factors that can contribute to mortgage delinquencies, in each of the selected states, grouped as: Arizona and Nevada, California and Florida, Michigan and Ohio, and Illinois and New Jersey.

Mortgage Delinquencies

Just as housing market conditions vary across the nation, so does the rate of mortgage delinquencies and foreclosures. For example, the New York Federal Reserve compiles maps showing the rates of mortgages that are 90 or more days delinquent by county. On this map in **Figure 6**, darker colors represent higher delinquency rates. Counties indicated in white are counties for which no data are available.

Figure 6. Percentage of Mortgages 90+ Days Delinquent



Source: New York Federal Reserve and TransUnion LLC'sTrend Data database.

Figure 7 shows the serious delinquency rate for the so-called "sand" states (Arizona, California, Florida, and Nevada), a Midwestern state (Michigan), and an East Coast state (New Jersey).[10] These states were chosen for this graph because they have some of the highest foreclosure rates in the nation and policymakers have devoted particular attention to them. Florida and Nevada have had the highest serious delinquency rates on all mortgages for the past few years. New Jersey started 2005 with a rate of serious delinquencies similar to those of Arizona, California, Florida, and Nevada, but it did not exhibit as sharp of an increase in serious delinquency rates as those states.

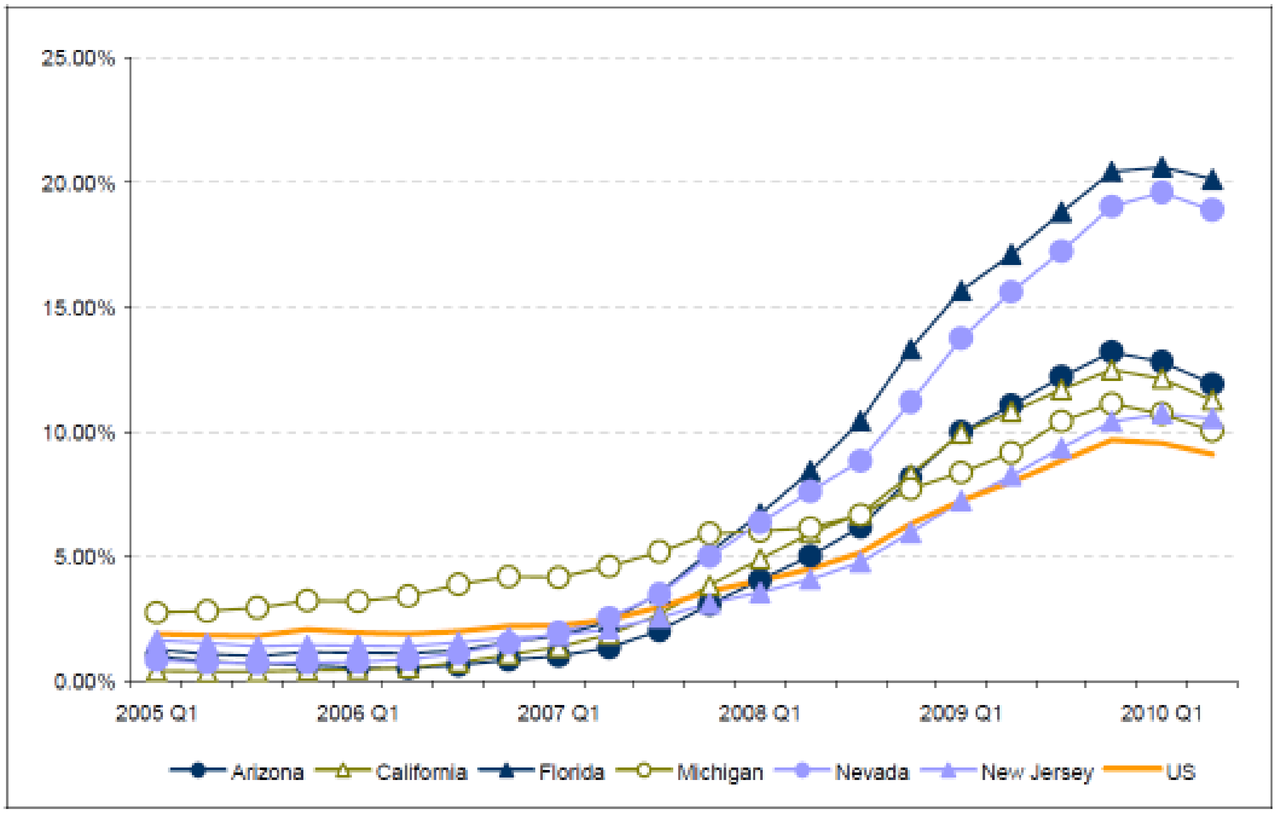
Michigan began this time period with the highest serious delinquency rates of this group of states. Michigan's serious delinquency rate has also risen over time, and is still above the U.S. average, but it now has a lower delinquency rate than nearly all of the other states shown on this graph, as serious

[10] This memo uses data on seriously delinquent mortgages from the Mortgage Bankers Association (MBA), an industry group, instead of data from CoreLogic or other sources. These data were used instead of data provided by CoreLogic because 1) they include a breakdown of prime, subprime, and all mortgages, and 2) they allowed CRS to calculate the percentages of all seriously delinquent mortgages in the U.S. that are in a given state; this calculation is used in a later section. Using CoreLogic's data provides similar estimates of the percentages of mortgages that are 90+ days delinquent or in foreclosure for most of the examined states; the exceptions are Florida and Nevada, both of which have appreciably higher rates of mortgages in 90+ day default or foreclosure according to the CoreLogic data than the MBA data. These differences are likely the result of the differences in the methodologies used by each of these companies and the universe of mortgages that are included in their data.

delinquency rates rose much more in the "sand" states than in Michigan. Michigan and New Jersey, however, do have very similar serious delinquency rates today.

Figure 7. Percentage of All Mortgages Seriously Delinquent, Selected States

2005 Q1 – 2010 Q2

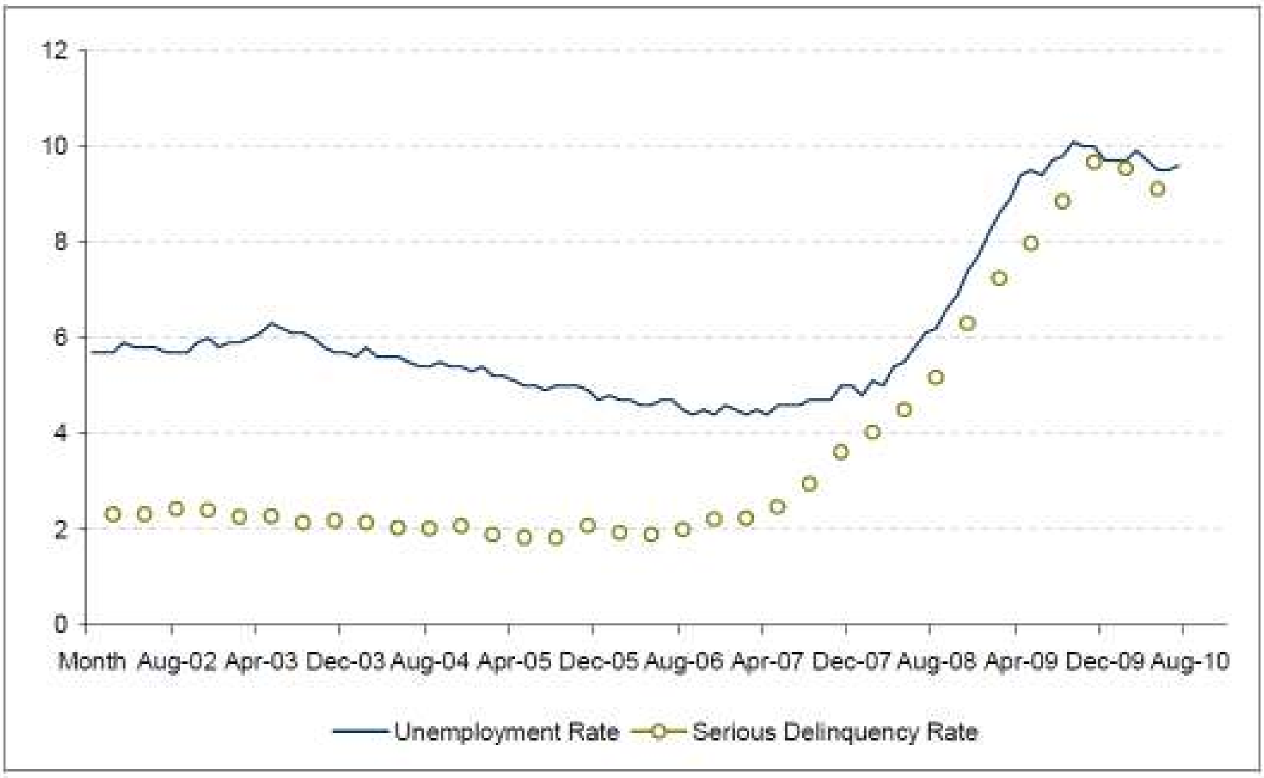


Source: Figure created by CRS based on data from the Mortgage Bankers Association.

On a national level, the initial rise in mortgage market problems does not appear to have stemmed primarily from rising unemployment. As **Figure 8** shows, serious delinquency rates began to rise before the unemployment rate did. While some foreclosures may have been caused by unemployment, the data suggest that rising unemployment was not the primary cause of the rise in delinquency and foreclosure rates on a national level in 2006. Not all states have had the same experience when it comes to unemployment, however, and unemployment may have been a driver of mortgage delinquencies in some states at this time.

Figure 8. National Unemployment and Serious Delinquency Rates

January 2002 – August 2010



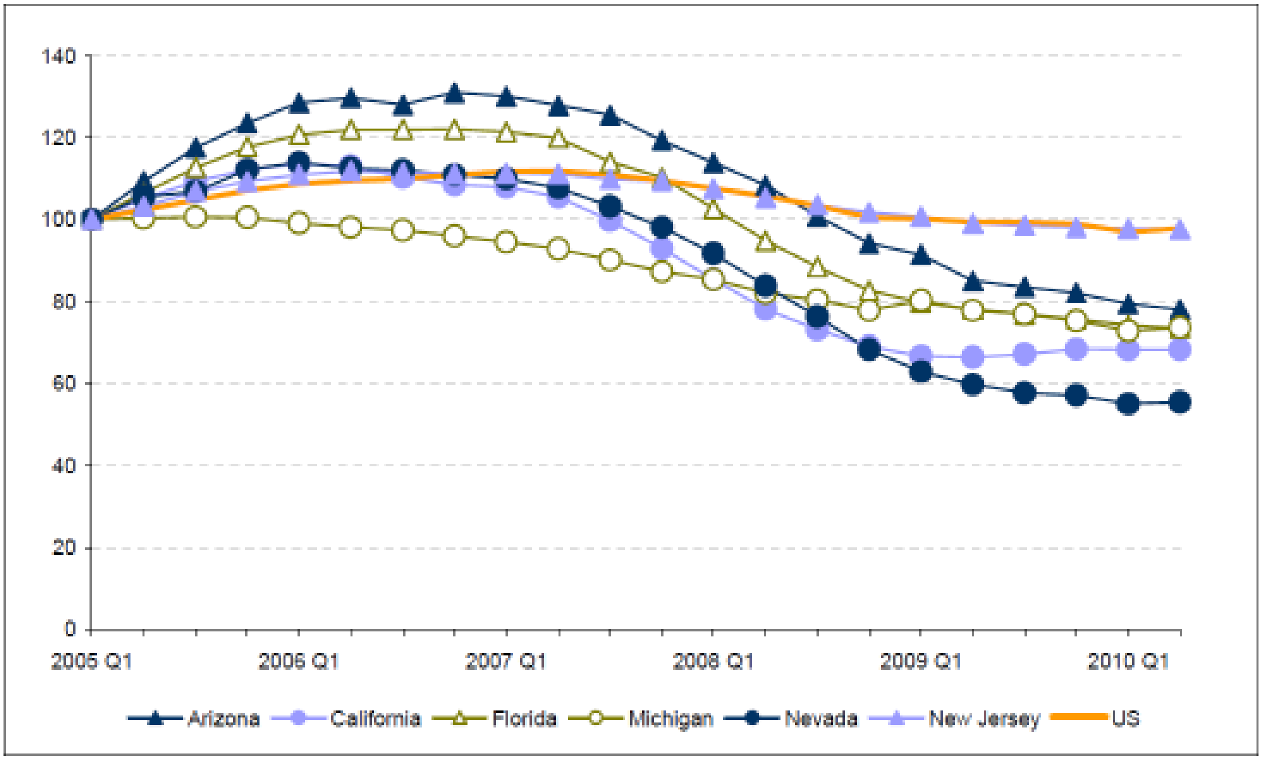
Source: Figure created by CRS using data from the Bureau of Labor Statistics and the Mortgage Bankers Association.

House Price Declines and Negative Equity

Figure 9 illustrates the difference in the severity of house price declines in some of the selected states over the time period between 2005 and 2010 using FHFA's House Price Index (HPI). House prices in Arizona, California, Florida and Nevada increased between 2005 and the second quarter of 2007 before falling steeply. In contrast, house prices in Michigan increased only slightly in 2005, and declined from 2006 to the present, but at a less steep rate; New Jersey had house price increases similar to California and Nevada at the beginning of this period, but currently has house prices similar to those it had in 2005, while all of the other states in **Figure 9** have house prices at least 20% below their level in the first quarter of 2005.

Figure 9. House Price Index Levels

2005 Q1 – 2010 Q2



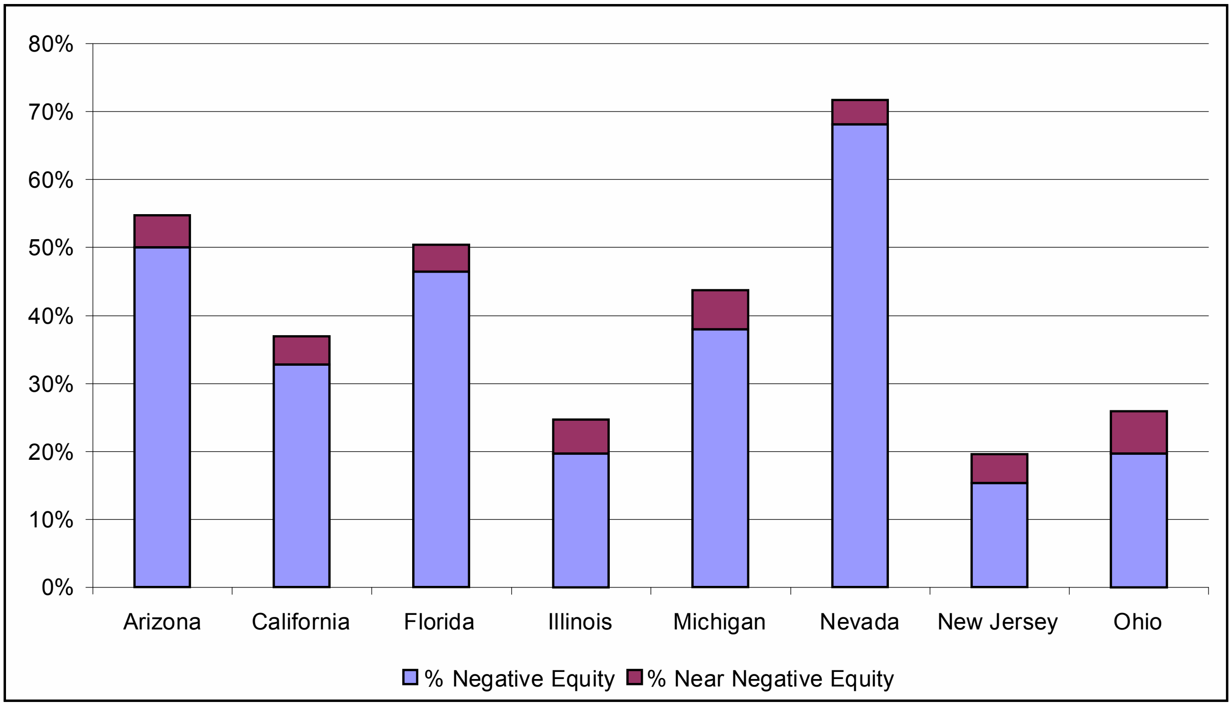
Source: Figure created by CRS using data from the Federal Housing Finance Agency and CRS calculations.

Notes: CRS calculations set the base period to the first quarter of 2005.

Again, one potential consequence of house price declines is a higher number of properties with negative equity. According to CoreLogic, many of the properties with negative equity in the United States are concentrated in five states, all of which are examined in this memo. Nevada had the highest percentage of mortgaged properties with negative equity in the second quarter of 2010, at 68%. It is followed by Arizona (50%), Florida (46%), Michigan (38%), and California (33%). All of these states have experienced significant house price declines in recent years, as exhibited on the graph above. These states also have higher percentages of homeowners with "severe" negative equity, defined as negative equity of 25% or more. **Figure 10** shows the percentage of mortgaged residential properties in each of the selected states that are in negative equity and the percentage that are near negative equity (defined as having between 0% and 5% equity). Together, all of these states account for nearly 65% of the mortgaged properties with negative equity in the United States.

Figure 10. Percentage of Mortgaged Properties with Negative Equity in the Selected States

2010 Q2



Source: Figure created by CRS based on data from CoreLogic.

Mortgage Features Contributing to Delinquencies

Fannie Mae, one of the government-sponsored enterprises (GSEs) that was placed under government conservatorship in September 2008, reports additional data that may help illuminate state housing conditions.[11] This section briefly describes some of the mortgage features that were common in some of the selected states leading up to the increase in delinquencies and foreclosures, based on these data. This section is not a comprehensive analysis of mortgages in these states, and Fannie Mae's portfolio may not be representative of all mortgages. However, these data may be instructive in identifying some differences in the mortgage features that were common in the selected states.

Fannie Mae's data show that, in 2007, mortgages in Michigan, Illinois, Indiana, and Ohio -- all midwestern states -- accounted for 10.7% of Fannie Mae's mortgages, but accounted for 46.6% of its credit losses. However, since then the share of losses from these four states has declined to 13.9% as the dollar losses in other states have increased more rapidly. The original loan-to-value (LTV) ratio in these four states was 74.7%, meaning that the average loan amount was 74.7% of the value of the home. This was higher than the company's average (71.3%), but below the 80% LTV threshold at which a borrower is usually required to purchase mortgage insurance to protect the lender. (LTVs should be viewed with some

[11] Freddie Mac, the other GSE in conservatorship, does not report its financial information in the same manner. Presumably, Freddie Mac's financial situation is broadly similar to Fannie Mae's condition. See http://www.fanniemae.com/ir/pdf/sec/2010/q2credit_summary.pdf and http://www.freddiemac.com/investors/er/pdf/supplement_2q10.pdf.

skepticism because during much of the period under consideration, many homeowners took out second mortgages that are not included in the reported LTVs.)

By many measures, the mortgages made in these four midwestern states were more prudent than for those made in the nation as a whole. Proportionally, these states had fewer interest-only and negative amortization mortgages and more mortgages for primary residences. While the states have a greater percentage (11.8%) of mortgages with LTVs between 100% and 125% compared to the nation (8.5%), they have fewer (4.2%) mortgages with severe negative equity, defined as LTVs over 125% (5.9%). On the other hand, these states have a higher percentage of borrowers with FICO credit scores below 620 (4.7%) than the nation (3.7%), meaning that a larger percentage of loans were made to borrowers with poor credit histories in these states than in the nation as a whole.[12]

Loans made in California account for 17.8% of Fannie Mae's mortgage portfolio and 21.5% of second quarter 2010 credit losses. The closeness of these percentages shows that California as a state has contributed only slightly more than proportionately to Fannie Mae's financial problems. According to FHFA's House Price Index, different areas in California have experienced vastly different house price changes. For example, over the last five years, house prices in the Los Angeles area have declined -14.3%, while prices in Stockton have declined -49.04%.[13]

Arizona, Florida, and Nevada share a number of common traits that California and the four midwestern states do not exhibit in Fannie Mae's portfolio. In particular, these states have a concentration of mortgages originated between 2005 and 2007; high current LTVs, indicating relatively large statewide house price declines; higher percentages of mortgages with current LTVs over 125%; and higher percentages of both interest-only mortgages and adjustable-rate mortgages.

House Price and Unemployment Conditions in the Selected States

This section takes a closer look at the recent experiences of the selected states in terms of house prices and unemployment, and attempts to identify similarities and differences in these states' experiences.

Conditions in Arizona and Nevada

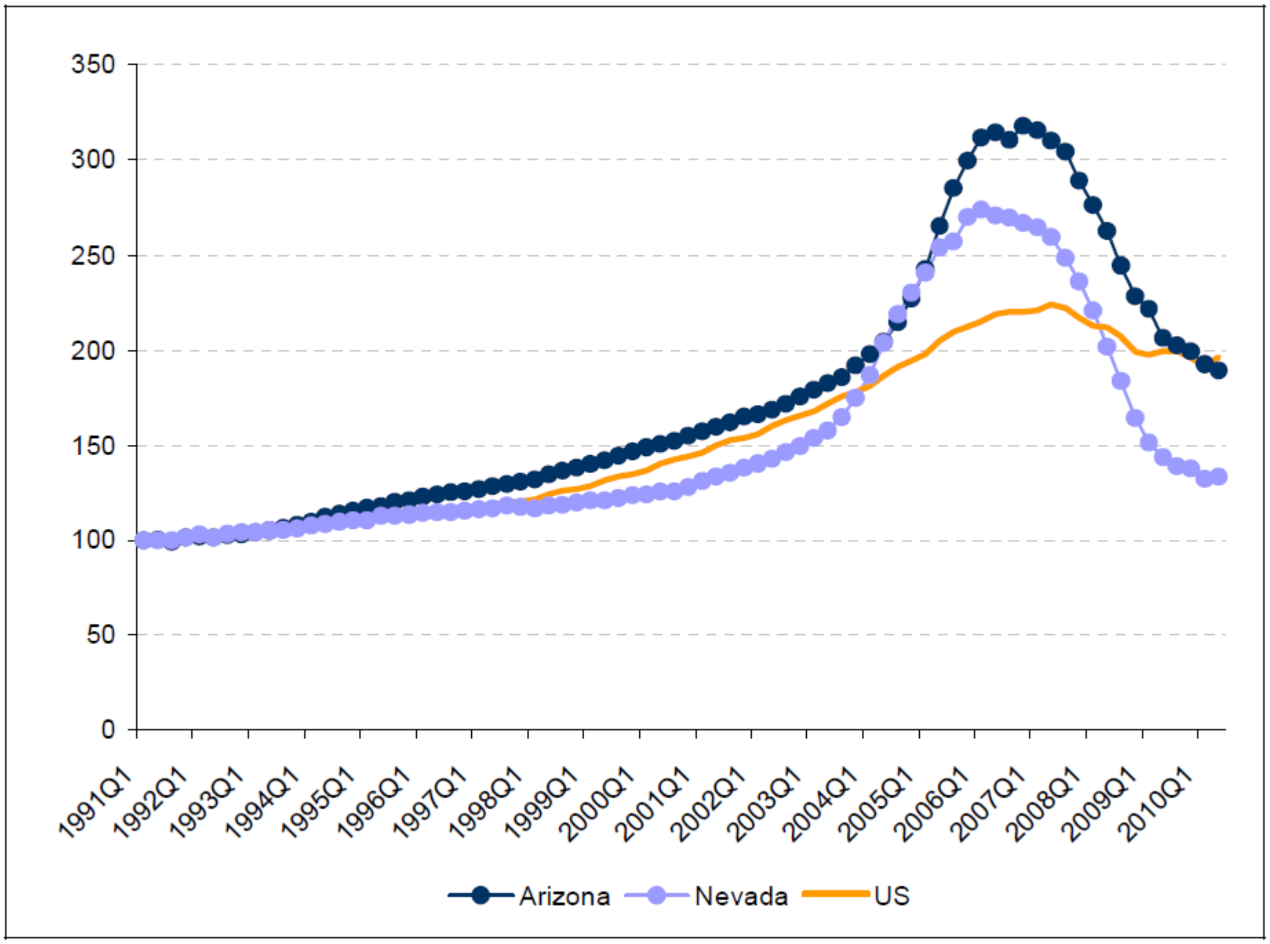
Figure 11 illustrates the house price trajectories of Arizona and Nevada, along with the national average, all normalized to the same base level in the first quarter of 1991. As the figure shows, average house prices in Arizona and Nevada evolved along a similar trajectory with the national average during the period between 1991 and about 2004. Arizona's house prices rose slightly faster than the national average during part of this period, while Nevada's rose more slowly than the national average. Around 2004, prices in both states began to rise steeply, accelerating most dramatically in Arizona. Prices then fell steeply in both states, beginning in Nevada around 2006 and in Arizona around 2007. In both states, the house price declines were steeper than in the United States as a whole. The steepness of these declines may have contributed to many mortgages being in negative equity situations in these states.

[12] FICO scores are a measure of credit worthiness developed by the Fair Isaac Corporation. FICO scores range between 300-850. See http://www.myfico.com/Downloads/Files/myFICO_UYFS_Booklet.pdf for more information.

[13] See http://www.fhfa.gov/Default.aspx?Page=216&Type=summary.

Figure 11. House Price Trends in Arizona and Nevada

1991 Q1 – 2010 Q2

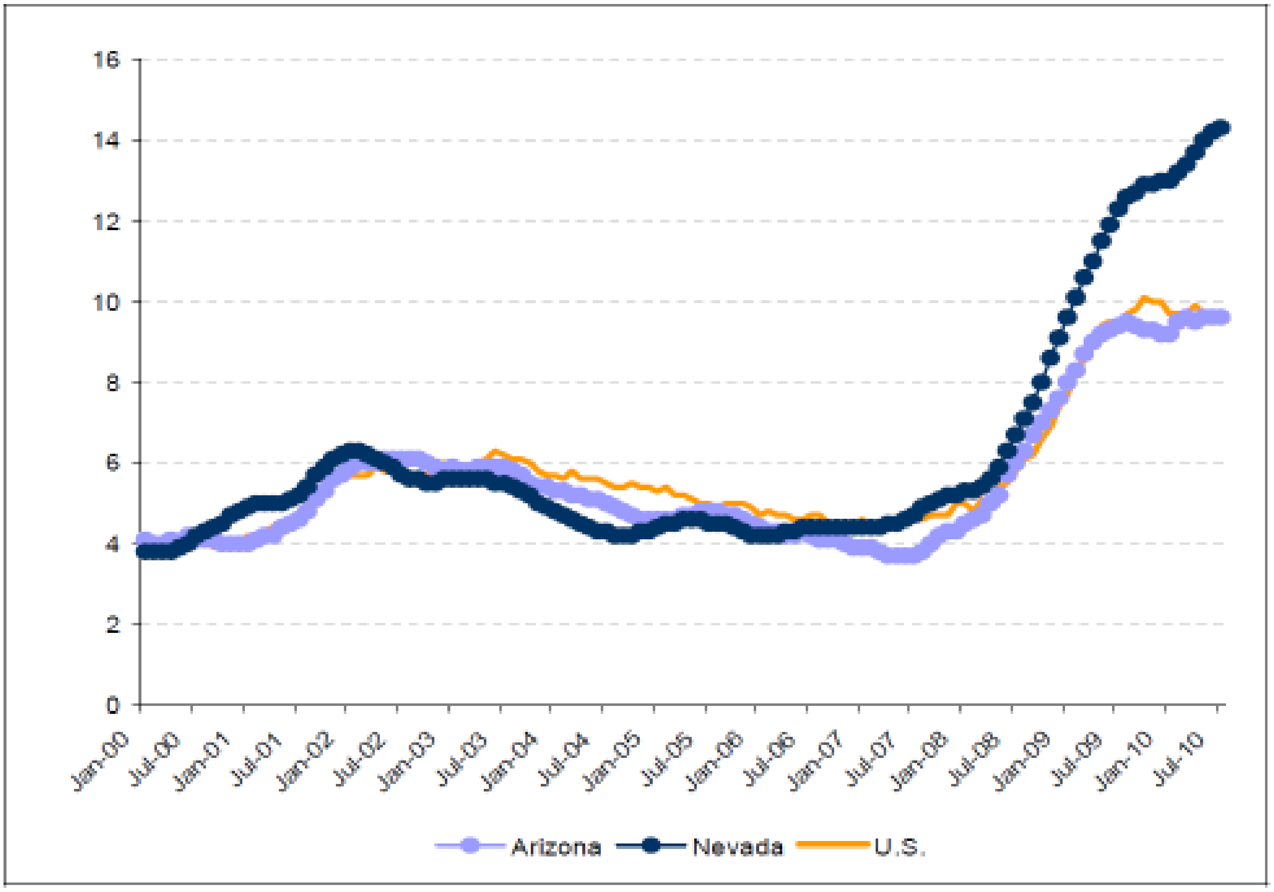


Source: Figure created by CRS based on data from FHFA.

Figure 12 shows unemployment rates in Arizona and Nevada from 2000 until July 2010. Unemployment rates in Arizona have closely tracked U.S. unemployment rates for most of this time period, though were somewhat below national rates for much of the period between 2003 and 2008. Today, the unemployment rate in Arizona is 9.6%, quite close to the rate for the United States as a whole (9.5% in July 2010). By contrast, the unemployment rate for Nevada has been above the national average since July 2007. The higher unemployment rate, when combined with the effect of negative equity, may help explain why the proportion of mortgages in serious delinquency (90 or more days delinquent, or in the foreclosure process) is higher in Nevada than in Arizona.

Figure 12. Unemployment Rates in Arizona and Nevada

January 2000 – July 2010



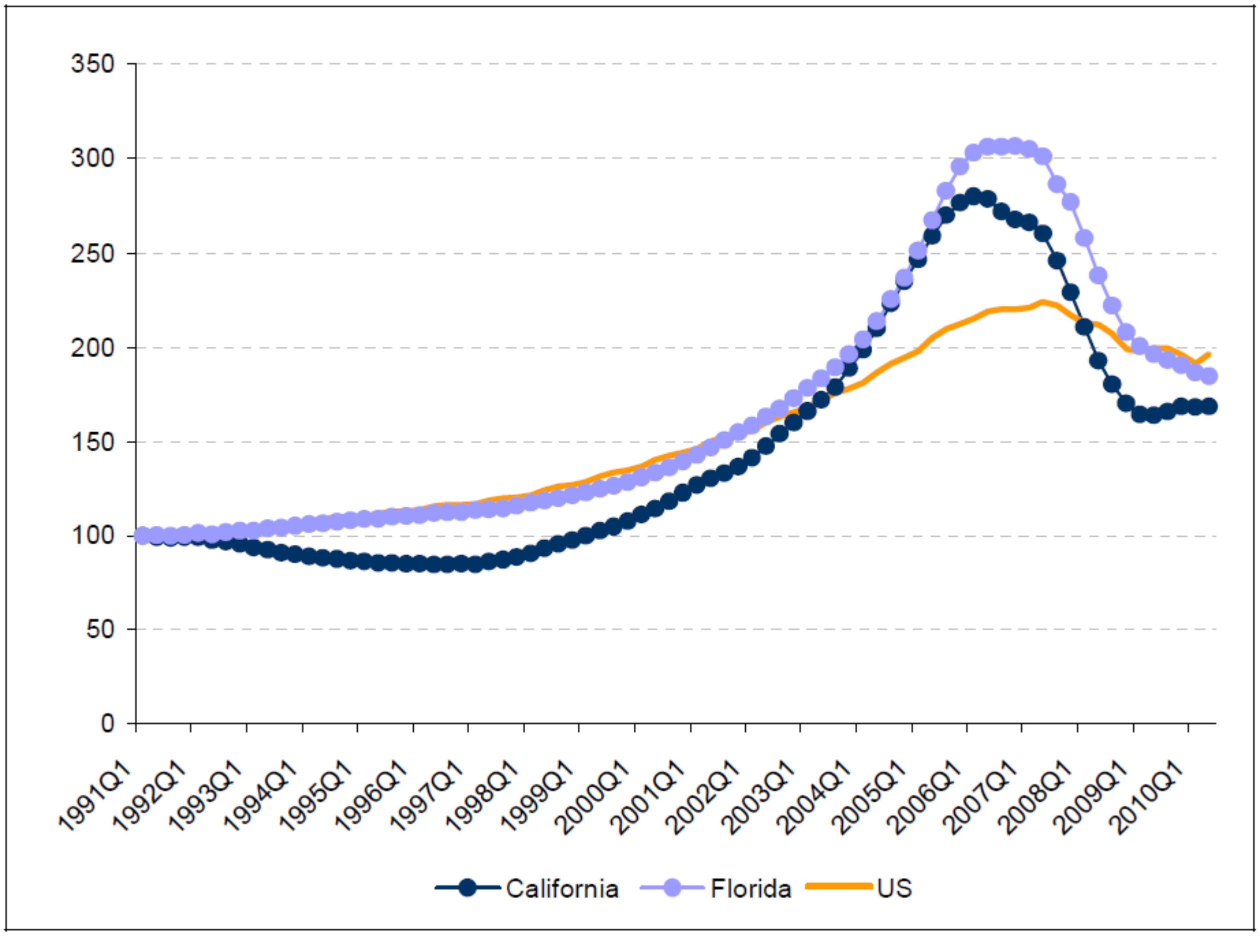
Source: Figure created by CRS based on data from BLS.

Conditions in California and Florida

Figure 13 illustrates house price trends in California and Florida from 1991 through the second quarter of 2010. House prices in Florida evolved similarly to average U.S. house prices from 1991 until about 2002, when Florida began experiencing a steep increase in house prices that saw average prices accelerate much faster than those in the United States as a whole. These prices then fell steeply, and are now on average where they were in mid-2003. California actually had average house prices decline until the late 1990s, before experiencing a steep increase in house prices that peaked in 2006 before falling steeply. Today, like house prices in Florida, house prices in California are on average similar to where they were in mid-2003, just before their steep rise.

Figure 13. House Price Trends in California and Florida

1991 Q1 – 2010 Q2

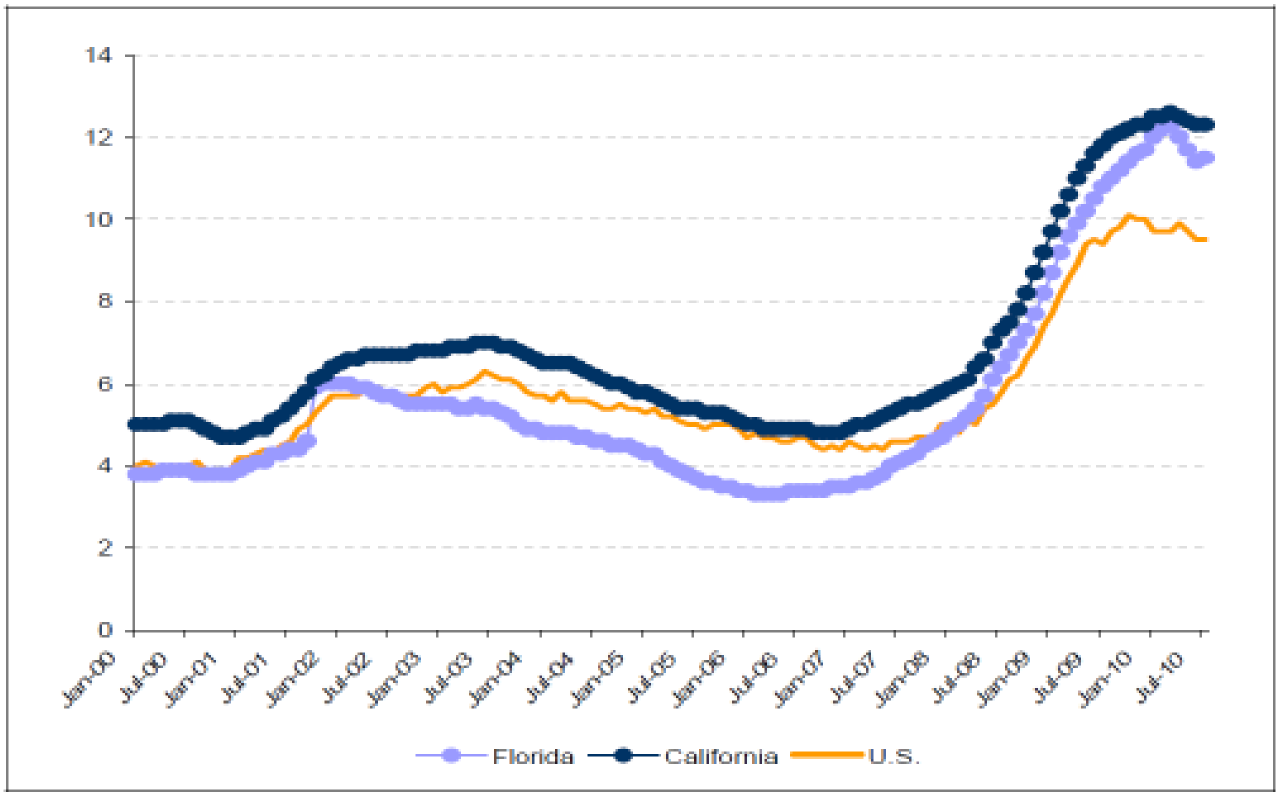


Source: Figure created by CRS based on data from FHFA.

Florida began the period 2000-2010 with unemployment around 4%. Unemployment rates in Florida closely tracked unemployment rates in the United States as a whole until about 2004, when unemployment rates in Florida were much lower than rates in the United States for a period of several years. In the first part of 2008, Florida's unemployment rate crossed the United States unemployment rate, and since then Florida has had a higher rate of unemployment than the United States as a whole. Today, Florida's unemployment rate is just under 12%, while the U.S. unemployment rate is just under 10%. In contrast to Florida, California had an unemployment rate above the U.S. rate as a whole for much of the last decade. California's unemployment rate is still higher than the U.S. average, but by a greater amount than it was for much of this period. Similar to Florida, California today has an unemployment rate just over 12%, compared to a U.S. average of under 10%. Unemployment trends in each of these states are shown in **Figure 14**.

Figure 14. Unemployment Trends in California and Florida

January 2000 – July 2010



Source: Figure created by CRS based on data from BLS.

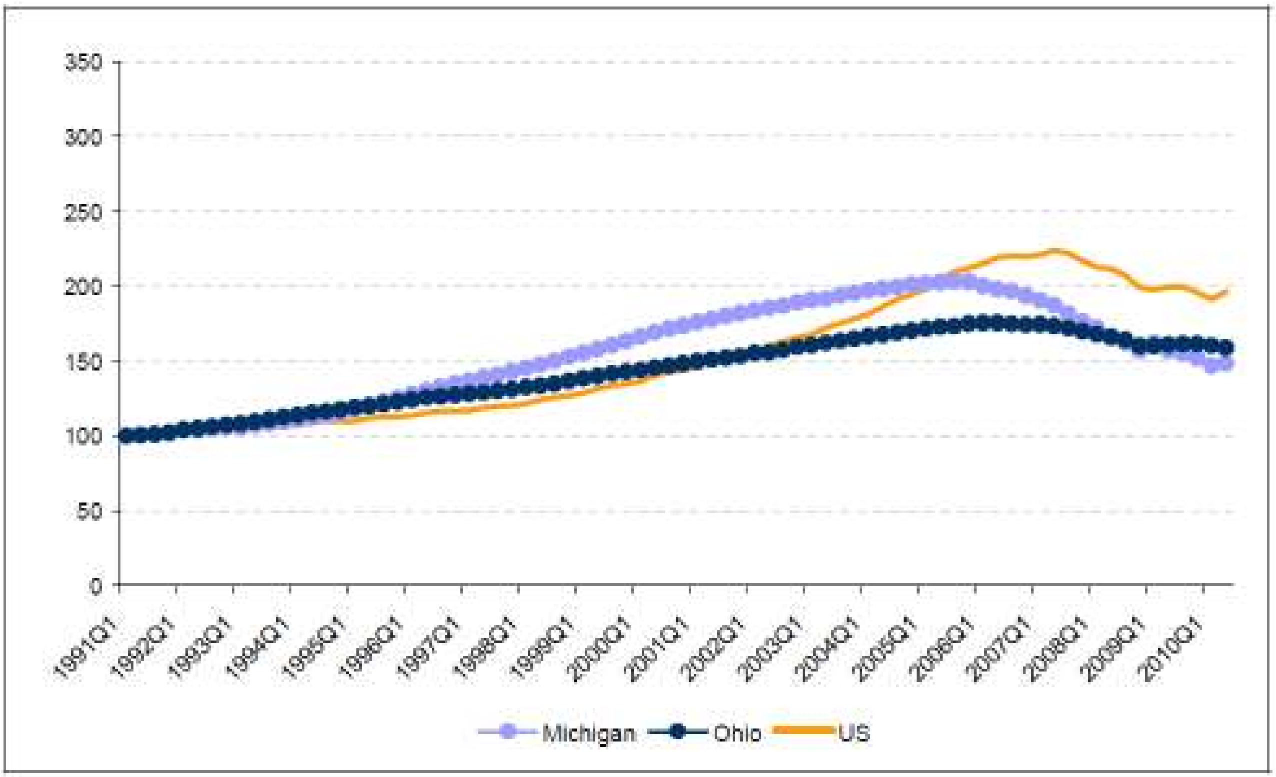
Conditions in Michigan and Ohio

According to **Figure 15**, the house price index shows that Michigan house prices rose steadily through 2005 with less volatility than the U.S. national average; the average prices did not rise at nearly the pace of those in Arizona, Nevada, California, and Florida prior to peaking. Michigan house prices subsequently fell on average to levels of 15 years earlier. Because these declines were more gradual, however, the negative equity effect on homeowners may not have been as severe in Michigan as in the "sand" states, given that the cumulative amount of lost home value would not have been as large.

House prices in Ohio were rather flat relative to Michigan and also to the rest of the nation. Ohio home prices did not climb as steeply as the national average in the 2000s, and did not fall as sharply. Hence, the foreclosures in Ohio would be less likely to be attributed to a negative equity effect than would be observed particularly in the four sand states, or even in Michigan.

Figure 15. House Price Trends in Michigan and Ohio

1991 Q1 – 2010 Q2



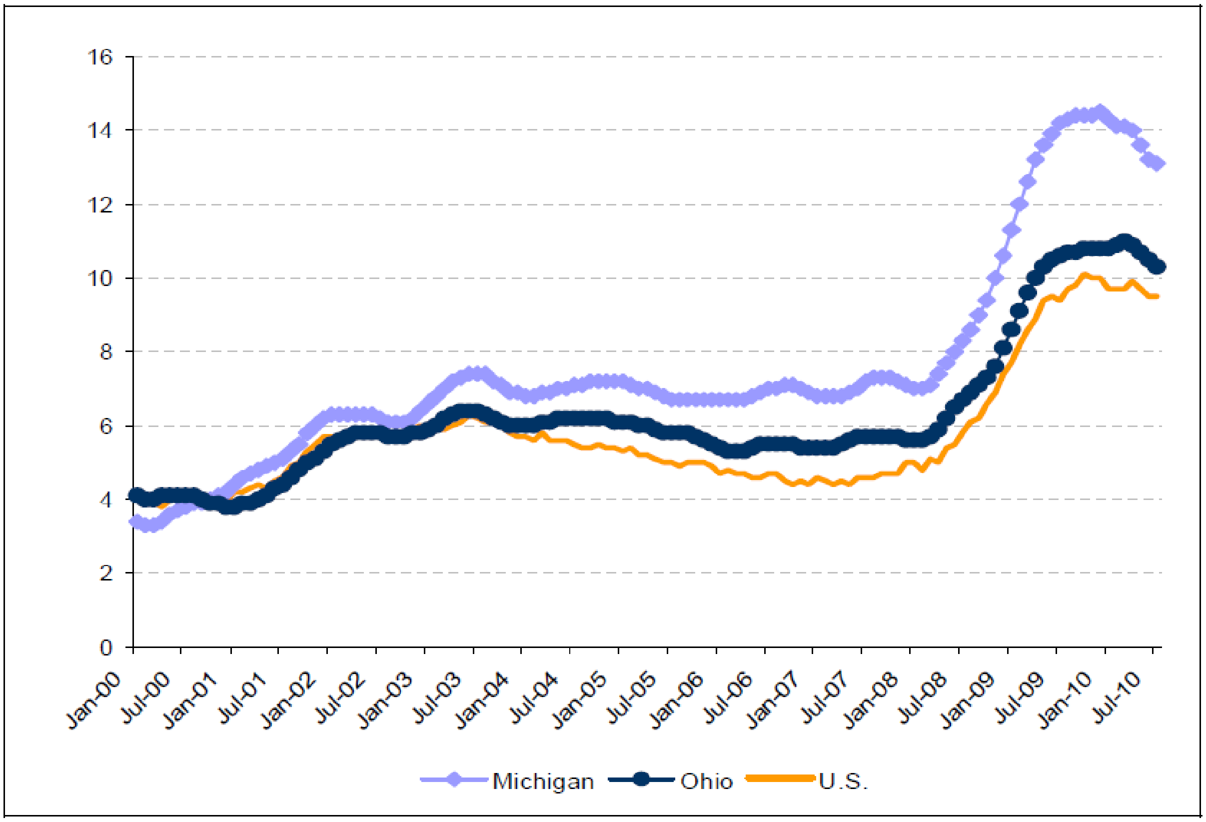
Source: Figure created by CRS based on data from FHFA.

The unemployment rates for Michigan and Ohio, as shown in **Figure 16**, have been higher than the national average since 2003. The unemployment rate in Michigan was much higher than in the rest of the nation, and substantially higher during the recession.[14] The unemployment rates prior to the recession in the sand states, on the other hand, were generally below the national average, and the unemployment rate in California prior to the recession was close to the national average. Consequently, many foreclosures in Michigan and Ohio may have origins related to long-standing unemployment problems that would have preceded the fall in house prices.

[14] Among the states examined, only Michigan has experienced a decade long trend of a declining labor force. http://www.bls.gov/lau/.

Figure 16. Unemployment Trends in Michigan and Ohio

January 2000 – July 2010



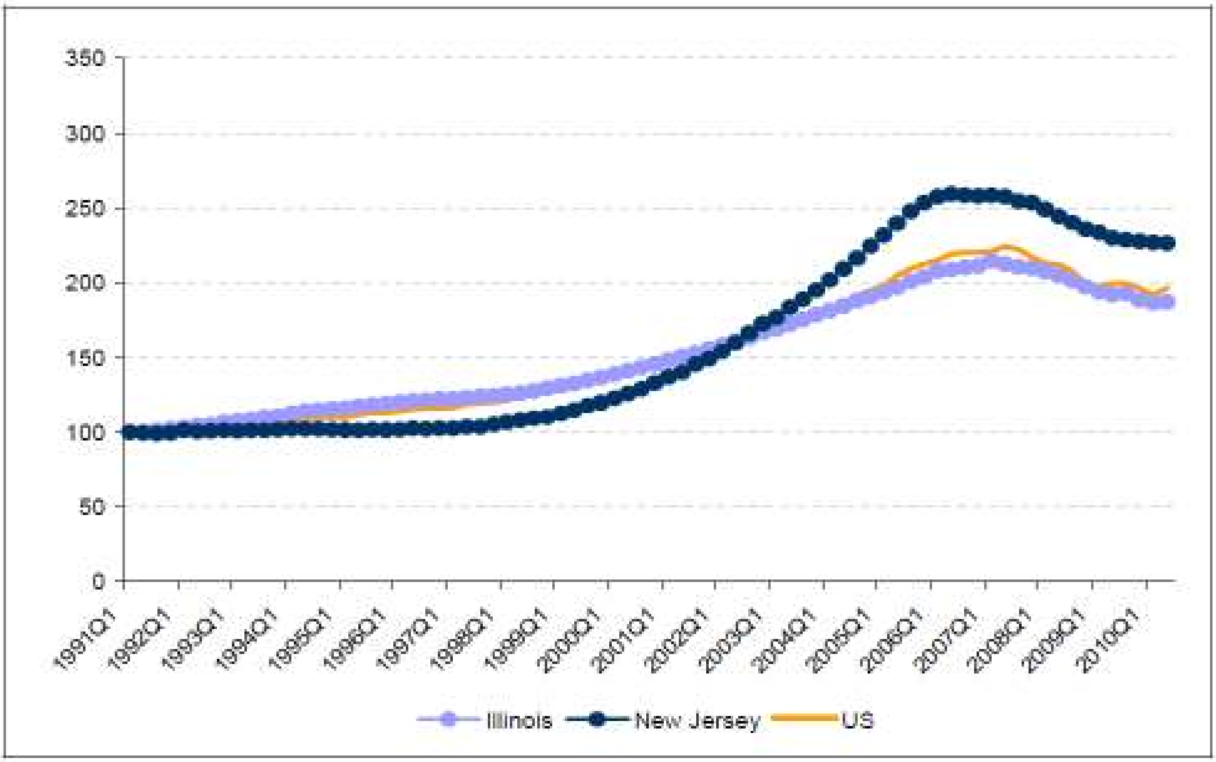
Source: Figure created by CRS based on data from BLS.

Conditions in Illinois and New Jersey

Figure 17 and **Figure 18** report on housing price and unemployment conditions, respectively, for Illinois and New Jersey. House price developments in Illinois appear to follow national trends very closely, but the unemployment rate was higher than the national average over nearly all of this time period. Given the close proximity to Michigan and Ohio, Illinois is sometimes grouped among the rust belt states and was likely affected by similar drivers of unemployment in the broader Midwestern region.

Figure 17. House Price Trends in Illinois and New Jersey

1991 Q1 – 2010 Q2

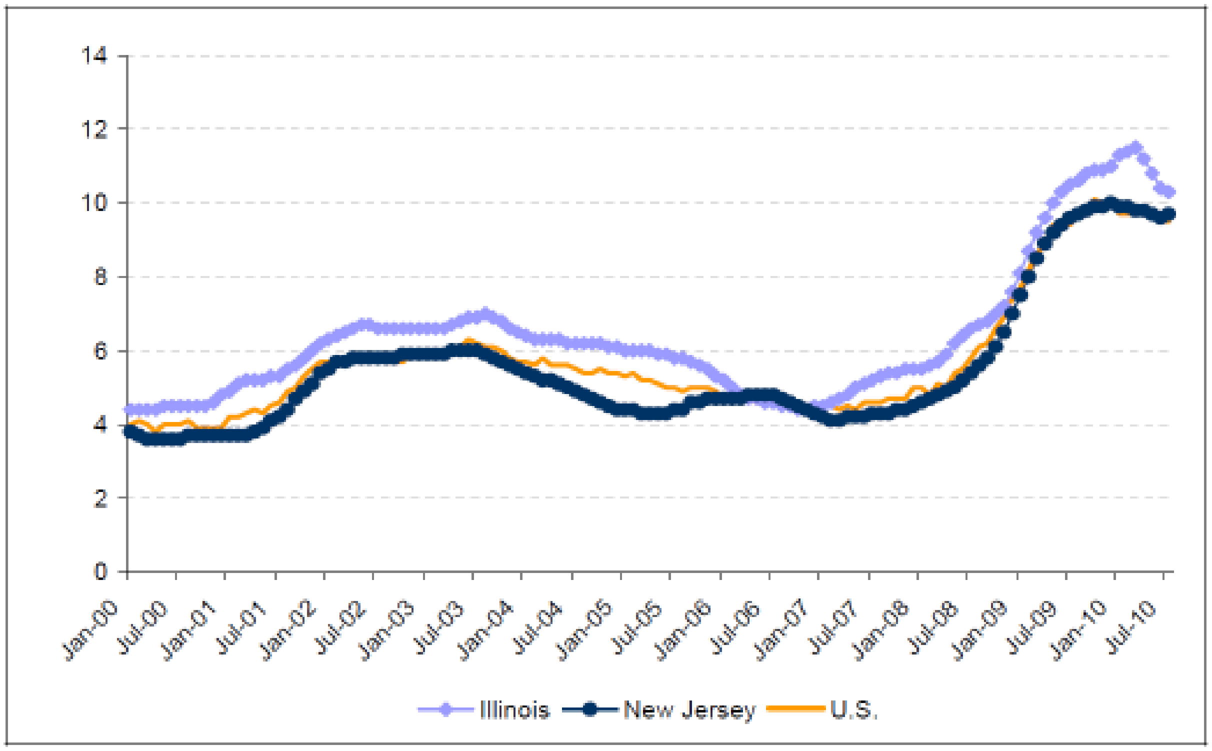


Source: Figure created by CRS based on data from FHFA.

New Jersey, along with Michigan, initially had higher serious delinquency rates of mortgages than the other selected states, but since the second half of 2008 New Jersey has had the lowest serious delinquency rates of these states. The unemployment rate in New Jersey has followed the national trend very closely, but its average house prices increased more sharply than the national average after being flat through the 1990s. However, house prices in New Jersey did not fall nearly as severely as they did in the sand states or even in Michigan, and remain at 2004 levels today. Given that house prices in New Jersey did not fall as far, a regional negative equity problem is less likely in comparison to the sand states. This observation also suggests that foreclosures in places like New Jersey, along with the midwestern states, have been driven by different forces than foreclosures in Arizona, California, Florida, and Nevada.

Figure 18. Unemployment Trends in Illinois and New Jersey

January 2000 – July 2010



Source: Figure created by CRS based on data from BLS.

Overview of Recent Foreclosure Prevention Programs

The federal government (as well as state and local governments) has implemented a number of foreclosure prevention programs in recent years to attempt to slow the pace of foreclosures. Such programs are generally intended to help certain borrowers avoid foreclosure and remain in their homes. Currently, federal programs that are in place, or will soon be in place, to prevent or mitigate the impact of foreclosures include the following: the Home Affordable Modification Program (HAMP), the Home Affordable Refinance Program (HARP), the Hardest Hit Fund, the FHA Refinance Program, the Emergency Homeowners Loan Program, Hope for Homeowners, the Neighborhood Stabilization Program (NSP), and foreclosure counseling funding through the National Foreclosure Mitigation Counseling Program (NFMCP). A brief description of each of these existing federal programs follows. The programs are described in the order in which the programs were created.[15]

National Foreclosure Mitigation Counseling Program

In the Consolidated Appropriations Act, 2008 (P.L. 110-161), Congress appropriated $180 million in funding to the Neighborhood Reinvestment Corporation (commonly known as NeighborWorks America)

[15] For more detailed information on most of these programs, see CRS Report R40210, *Preserving Homeownership: Foreclosure Prevention Initiatives*, by Katie Jones.

to distribute to eligible housing counseling agencies specifically for foreclosure mitigation counseling.[16] This funding has become known as the National Foreclosure Mitigation Counseling Program (NFMCP). NeighborWorks competitively distributes NFMCP funding to housing counseling intermediaries that have been approved by the Department of Housing and Urban Development (HUD); state housing finance agencies; and NeighborWorks affiliates, who by statute are the only types of organizations eligible to receive NFMCP funds. These organizations then use the funds to counsel borrowers who are in danger of foreclosure. Since the original funding, Congress has made three additional appropriations to the NFMCP, detailed in **Table 1** below.

Table 1. Congressional Appropriations for the National Foreclosure Mitigation Counseling Program

$ in millions

Law	Date Enacted	Appropriation
Consolidated Appropriations Act, 2008 (P.L. 110-161)	December 26, 2007	$180
Housing and Economic Recovery Act of 2008 (P.L. 110-289)	July 30, 2008	$180
Omnibus Appropriations Act, 2009 (P.L. 111-8)	March 11, 2009	$50
Consolidated Appropriations Act, 2010 (P.L. 111-117)	December 16, 2009	$65

Source: P.L. 110-161, P.L. 110-289, P.L. 111-8, P.L. 111-117

Notes: The funding appropriated in P.L. 110-289 also included funding for legal assistance for homeowners facing foreclosure.

In awarding NFMCP program funds, NeighborWorks takes into account a number of factors, including the prevalence of subprime loans, subprime delinquencies and foreclosures, or prime delinquencies and foreclosures in a given area.[17] The amount of counseling that each of the states examined in this memo has received through the NFMCP is described in a later section (see "NFMCP" in the "Performance of Select Foreclosure Prevention Programs" section).

Hope for Homeowners

Hope for Homeowners was created by Congress in the Housing and Economic Recovery Act of 2008 (HERA, P.L. 110-289). The program began on October 1, 2008. Through the program, eligible homeowners who owe more than their homes are worth can refinance into new mortgages insured by FHA with principal balances no higher than 96.5% of the home's currently appraised value. The first mortgage holder forgives the difference between the amount owed on the old mortgage and the amount of

[16] This funding has been appropriated in addition to funding appropriated to HUD to competitively distribute to housing counseling agencies for a broad range of counseling activities, including, but not limited to, foreclosure mitigation counseling. This funding is also appropriated in addition to a regular annual appropriation to NeighborWorks America for a wide range of community reinvestment activities.

[17] The factors considered in evaluating NFMCP applications may change from round to round. For example, the legislation governing the most recent round of funding directed NeighborWorks to consider the performance of prime mortgages as well as subprime mortgages in assessing areas of greatest need, while the first three rounds of funding only looked at subprime mortgage performance.

the new mortgage; the borrower pays standard upfront and annual FHA mortgage insurance premiums and agrees to share part of the initial equity created in the property by the refinance with the government when the home is sold; and the holder of the new mortgage has FHA insurance in the case of default. The new mortgage must be a 30-year fixed-rate mortgage with no prepayment penalties, and may not exceed $550,440. Existing second liens must be extinguished, and second lien-holders may receive an upfront payment in exchange for extinguishing their liens.

In order to qualify for Hope for Homeowners, borrowers must: 1) have a mortgage that originated on or before January 1, 2008; 2) have mortgage payments that are more than 31% of gross monthly income; 3) not own another home; 4) not have intentionally defaulted on his or her mortgage or any other substantial debt within the last five years, and not have been convicted of fraud during the last ten years under either federal or state law; and 5) not have provided false information to obtain the original mortgage.

Hope for Homeowners is scheduled to expire September 30, 2011. While the Congressional Budget Office (CBO) originally estimated that up to 400,000 people could refinance their mortgages through this program, actual participation has been much lower. As of June 2010, the program had received 1,355 applications, and 71 new mortgages had been insured by FHA. Because so few mortgages have been modified through Hope for Homeowners, and because state-level data are not readily available, the state-by-state performance of Hope for Homeowners is not analyzed in this white paper.

Neighborhood Stabilization Program[18]

Unlike the other programs described in this section, the primary objective of the Neighborhood Stabilization Program (NSP) is not to prevent foreclosures. Rather, the primary objective of the NSP is to reduce the supply of abandoned and foreclosed residential properties. The program was created by HERA, which appropriated $3.92 billion in supplemental Community Development Block Grant (CDBG) assistance to states and eligible local governments to acquire, rehabilitate, and resell abandoned and foreclosed residential properties. Subsequent funding has been appropriated to be used for the same purposes, but individual appropriations laws have included additional requirements governing the program. Since the passage of HERA in 2008, Congress has authorized the creation of NSP 2 under the American Recovery and Reinvestment Act (ARRA, P.L. 111-5), and NSP 3 under the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank, P.L. 111-203). NSP 1 and NSP 3 funds were both allocated based on a formula, while NSP 2 funds were awarded competitively to states, local governments, nonprofits, and for-profit entities in partnership with nonprofits.

Under all of the rounds of NSP, grant recipients must use funds to: 1) create financing instruments that would enable them to finance the purchase and redevelopment of foreclosed homes and residential properties; 2) purchase and rehabilitate foreclosed homes and residential properties for sale, rent, or redevelopment; 3) establish land banks for foreclosed properties; and 4) demolish blighted structures.

Data on the amount of funding provided to the states examined in this white paper through each round of NSP are included in a later section (see “NSP” in the “Performance of Select Foreclosure Prevention Programs” section). Little information on program activity is available to date, but to the extent possible, this type of information is discussed in that section as well.

[18] For more information on NSP, see CRS Report RS22919, *Community Development Block Grants: Neighborhood Stabilization Program; Assistance to Communities Affected by Foreclosures* , by Eugene Boyd and Oscar R. Gonzales.

Home Affordable Refinance Program (HARP)

The Home Affordable Refinance Program (HARP) was announced by the Obama Administration on February 18, 2009, with additional program guidance released on March 4, 2009. Through this program, certain qualified borrowers who are current on their mortgages, and who have mortgages owned or guaranteed by Fannie Mae or Freddie Mac, may be able to refinance their mortgages even if they owe more than 80% of the value of their home. Borrowers can owe up to 125% of the value of the home and still be eligible.

Unlike most of the other programs described in this section, HARP is not primarily targeted at borrowers who are struggling to make their mortgage payments. Rather, it is targeted to borrowers who may be able to benefit from refinancing at current low market interest rates (and thereby lowering their monthly mortgage payments), but who are unable to refinance through traditional methods because of home price declines that have left them owing nearly as much as, or more than, their homes are worth.

HARP was originally scheduled to expire on June 10, 2010. The Federal Housing Finance Agency has since extended the program through June 30, 2011. The Administration originally estimated that HARP could help up to between 4 million and 5 million homeowners. According to a recent report from the FHFA, Fannie Mae and Freddie Mac had refinanced almost 380,000 loans with loan-to-value ratios above 80% through June 2010.[19] Fannie Mae and Freddie Mac bear the costs associated with this program.

Little geographic information on HARP is available; therefore, HARP activity in the selected states is not discussed in this white paper.

Home Affordable Modification Program (HAMP)

The most visible of the recent federal efforts to prevent certain foreclosures has been the Home Affordable Modification Program (HAMP), which was announced by the Obama Administration on February 18, 2009, with additional program guidance released on March 4, 2009. Through HAMP, the federal government pays financial incentives to mortgage servicers[20] to lower certain eligible borrowers' monthly mortgage payments to 31% of gross monthly income. This payment ratio is achieved through interest rate reductions and, if necessary, term extensions and principal forbearance. Servicers must perform a net present value (NPV) test to see if the modification is expected to have a positive benefit for the investor compared to a foreclosure. If the modification has a positive NPV result and the borrower meets the other eligibility criteria, a participating servicer must offer a three-month trial modification. The borrower must make the required modified mortgage payments over the trial period in order to be offered a permanent modification.

HAMP is a voluntary program. Servicers sign contracts with the government if they choose to participate, but once they sign the contract, they are obligated to follow the rules of the program. Both current and delinquent borrowers may be eligible for the program, but borrowers who are current must show that they are in danger of imminent default.

[19] Federal Housing Finance Agency, "Foreclosure Prevention and Refinance Report, Second Quarter 2010: FHFA Federal Property Manager's Report," September 10, 2010, available at http://www.fhfa.gov/webfiles/16687/2q10fprfinal.pdf.

[20] Mortgage servicers are the entities that collect mortgage payments from borrowers and pass them on to the mortgage investor; they are also responsible for any mortgage modification activities and for beginning the foreclosure process on a defaulted loan. HAMP is optional for servicers, but servicers who choose to participate must sign a contract with the government, and are then bound to abide by the program's rules.

Originally, HAMP was to be funded using $50 billion in Troubled Asset Relief Program (TARP) funds and up to $25 billion from Fannie Mae and Freddie Mac for the costs of modifying their own loans. As of a July 2010 report, about $30 billion in TARP funds has been committed to HAMP, and about $350 million has been spent. Some of the original $50 billion in TARP funds set aside for HAMP will now be used for other foreclosure prevention programs, including $4.1 billion for the Hardest Hit Fund and up to $11 million for the FHA Refinance program (both of these programs are described below).

On March 26, 2010, the Administration announced some changes to HAMP. Two of these changes were specifically aimed at assisting borrowers who are unemployed or who have severe negative equity, respectively. One change was creating the Home Affordable Unemployment Program (UP), in which participating HAMP servicers are required to offer qualified unemployed HAMP applicants at least three months of forbearance before evaluating these borrowers for HAMP. During the forbearance period, borrowers pay 31% of their current income, including unemployment benefits. UP went into effect on July 1, 2010. The second change was the Principal Reduction Alternative (PRA), in which servicers are required to consider reducing the principal balance owed by borrowers who owe more than 115% of the value of their home. (Servicers consider this by running two NPV tests, one with principal reduction and one without, and comparing the results.) If the modification with principal reduction has a higher NPV for the investor, the servicer is required to consider reducing principal, but it does not have to do so. PRA will go into effect on October 1, 2010 or on the date that the fourth version of the NPV model is implemented, whichever is later. Other changes have been made to HAMP since its inception, and other additional programs have been created under the broader HAMP umbrella (such as the Second Lien Modification Program, or 2MP, to provide incentives for the write-down or extinguishment of second liens, and the Home Affordable Foreclosure Alternatives, or HAFA, program, which provides incentives for short sales and deeds-in-lieu of foreclosure in situations where a borrower cannot qualify for or cannot maintain a modified mortgage through HAMP).

A discussion of the number of HAMP modifications in each of the states examined in this white paper is included in a later section (see “HAMP” in “Performance of Select Foreclosure Prevention Programs”).

Hardest Hit Fund

On February 19, 2010, the Obama Administration announced that it would make up to $1.5 billion available to the Housing Finance Agencies (HFAs) of five states that had experienced the largest home price declines since the peak of the housing “bubble.” These states were Arizona, California, Florida, Michigan, and Nevada. The HFAs of these states can use the funds for innovative foreclosure prevention programs that meet local needs, subject to the requirements of the Emergency Economic Stabilization Act (P.L. 110-343, the Act that authorized TARP) and Treasury’s approval. These five states had their plans approved by Treasury on June 23, 2010.[21]

The Administration announced a second round of funding for the Hardest Hit Fund on March 29, 2010. In this round of funding, up to $600 million was made available to five states that had large percentages of their populations living in counties with high unemployment rates; these states were North Carolina, Ohio, Oregon, Rhode Island, and South Carolina. The plans submitted by the HFAs of these states were approved on August 4, 2010.

[21] More information on the Hardest Hit Fund, including state HFA plans for the funds that have been approved by Treasury, can be found at http://financialstability.gov/roadtostability/hardesthitfund.html.

A third round of Hardest Hit Fund funding, announced on August 11, 2010, will be distributed to eighteen states and the District of Columbia, all of which had unemployment rates higher than the national average over the last year. Nine of the states that received funding in one of the first two rounds of the Hardest Hit Fund are also eligible for funding in this round (Arizona is the only state that received funding in one of the first two rounds that is not eligible for funding in the third round). In addition, Alabama, Georgia, Illinois, Indiana, Kentucky, Mississippi, New Jersey, Tennessee, and Washington, D.C. are eligible for funding in this round. Unlike the first two rounds of Hardest Hit Fund funding, states must use this round of funding specifically for programs targeted to unemployed homeowners. The HFAs of these states were required to submit their plans to Treasury by September 1, 2010; the plans had not been approved by Treasury as of the date of this memo.

All of the Hardest Hit Fund funding (a total of $4.1 billion as of the date of this memo) will come from TARP funds, which is why state programs must meet the requirements of P.L. 110-343. Since state programs have only recently been approved by Treasury for the first two rounds of funding, and programs have not yet been approved for the third round of funding, no data are currently available on the performance of these programs. The amount of funding that each of the states examined in this memo received from the Hardest Hit Fund, and the programs that they plan to support with these funds, are described in a later section (see "Hardest Hit Fund" in "Performance of Select Foreclosure Prevention Programs").

FHA Refinance

The Administration announced a new FHA Refinance program on March 26, 2010. This program will essentially allow certain borrowers who owe more than their homes are worth to refinance their loans using existing FHA refinancing processes. Like Hope for Homeowners, the program will work by allowing qualifying borrowers to refinance into new loans with smaller principal balances that will be insured by FHA. The original lender will accept the proceeds of the new loan as payment in full on the original mortgage; the new lender will have FHA insurance on the new loan; and the homeowner will have a first mortgage balance that is below the current value of the home, thereby giving him or her some equity in the home. Homeowners will have to be current on their mortgages to qualify for this program and will pay standard FHA mortgage insurance premiums. Further, the balance on the first mortgage loan will have to be reduced by at least 10%, and total mortgage debt (including second liens) will not be allowed to exceed 115% of the current value of the home. This program is voluntary for lenders, and borrowers with mortgages already insured by FHA are not eligible.

Like Hope for Homeowners, the FHA Refinance program primarily targets borrowers who have severe negative equity in their homes. While the FHA Refinance program is similar in structure to Hope for Homeowners, there are some key differences between the two programs. First, Hope for Homeowners requires that any second liens be extinguished. Under the FHA Refinance program, second liens are specifically allowed to remain in place. Incentives will be offered for the second lien-holder to reduce the balance of the second lien, and the homeowner's combined debt on both the first and the second lien will not be allowed to exceed 115% of the value of the home after the refinance. Second, under Hope for Homeowners, borrowers can be either current or delinquent on their mortgages to qualify. Under the new FHA refinance plan, borrowers will have to be current on their mortgages. Finally, under Hope for Homeowners, borrowers must agree to share some of their initial equity in the home with the government when the house is sold. The new FHA refinance plan does not appear to require any equity or appreciation sharing.

Loans became eligible for the FHA Refinance program beginning September 7, 2010, and the program is expected to be available until December 31, 2012. Treasury has said that it will use up to $11 billion in

TARP funds to help pay for the cost of this program; additional program costs will be borne by FHA. Since the program has just begun, no data on the program are available as of the date of this white paper .

Emergency Homeowners Loan Program

The Dodd-Frank Wall Street Reform and Consumer Protection Act (P.L. 111-203) includes $1 billion for emergency mortgage relief for unemployed homeowners. The program will enable HUD to provide for interest-free, non-recourse loans to certain unemployed borrowers to help them make their mortgage payments while they search for new jobs. Borrowers must be at least three months delinquent on their mortgages, have good payment histories prior to the events that reduced their incomes, have reasonable likelihoods of being able to resume repayment of their mortgages, live in the homes as their principal residences, and not own second homes. The total amount of assistance is capped at $50,000 for any individual homeowner, and homeowners may not receive assistance for more than 24 months.

According to a recent HUD press release,[22] this program will be known as the Emergency Homeowners Loan Program, and the assistance will be targeted to certain geographic areas that may not have benefitted from other foreclosure prevention programs, namely the Hardest Hit Fund. The program will operate through state and non-profit entities. As of the date of this memo, HUD has not released further details on the program or how the funding will be targeted. Since the program has not yet begun, there are no data to provide on the program.

Performance of Foreclosure Prevention Programs

This section describes, to the extent possible, the amount of funding allocated to the states examined in this white paper through certain federal foreclosure prevention programs, or the impact of those programs in these states.

Many foreclosure prevention programs are too new to have released any data on program performance to date. This includes the FHA Refinance Program, which only became operational on September 7, 2010, and the Emergency Homeowners Loan Program, which is not operational as of the date of this white paper. It also includes the Hardest Hit Fund, for which state plans for the first two rounds of funding were just approved by Treasury within the past few months, and for which state plans for the third round of funding have not yet been approved by Treasury. The total number of participants in Hope for Homeowners is too small to do a meaningful geographic analysis. National data are available on HARP, but not state-level data.

Because of the limitations on data availability, this section of the white paper looks at funding allocated to the selected states for the Home Affordable Modification Program (HAMP), the Neighborhood Stabilization Program (NSP), and the National Foreclosure Mitigation Counseling Program (NFMCP) and, where possible, the performance of these programs in these states, as these are the only federal programs addressing foreclosures for which meaningful geographic data are available. However, the geographic data on even these programs are somewhat limited. This section also provides a brief overview of the

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[22] See U.S. Department of Housing and Urban Development, "Obama Administration Announces Additional Support for Targeted Foreclosure-Prevention Programs to Help Homeowners Struggling with Unemployment," press release, August 11, 2010, available at http://portal.hud.gov/portal/page/portal/HUD/press/press_releases_media_advisories/2010/HUDNo.10-176.

programs that the examined states have proposed funding with any money that they may have received in the first two rounds of the Hardest Hit Fund.

Programs put in place to prevent foreclosures will be designed differently depending on the primary cause of foreclosure that they are intended to address. The success of any given program will partly depend on how well it addresses the major drivers of foreclosure in a given region or time period. For example, programs will likely have different regional impacts depending on whether they are primarily intended to address foreclosures driven by temporary issues such as unemployment, permanently unaffordable payments such as those that may be caused by payment resets, or other issues. A program that is primarily targeted at helping people afford mortgage payments that have become unaffordable due to payment resets may not be especially useful to people facing a short-term disruption in income, such as one caused by unemployment. Therefore, such a program may not perform as well in areas where the latter problem is, or becomes, a bigger driver of foreclosure than the former.

Most of the federal foreclosure prevention programs that are currently in place are intended to address one or more causes of foreclosure. Hope for Homeowners and the FHA Refinance program both target negative equity by reducing principal balances. These programs may be able to help some borrowers who are facing foreclosure due to unemployment, payment resets, or several other reasons, but a borrower must have negative equity to qualify for one of these programs. HARP does not directly target the problem of negative equity, since it does not reduce the principal amount owed on a mortgage; however, it does try to help people who have or are in danger of having negative equity in their homes by making it easier for some of these borrowers to refinance their mortgages and lower their monthly payments.

HAMP is primarily targeted at people who cannot afford their mortgage payments, perhaps due to changes in mortgage terms that increased monthly mortgage payments or because of a permanent loss of income. Although some people who are unemployed or who have negative equity may be able to benefit from HAMP, the program is not primarily targeted at these problems.

The Emergency Homeowners Loan Program will specifically try to help people who are unemployed by offering short-term loans to these borrowers to help them make their mortgage payments until they are again employed. Such a program, even if it were open to borrowers facing foreclosure for reasons other than unemployment, would not provide long-term solutions to borrowers who need permanent help.

The NFMCP funding is not targeted to any specific causes of foreclosure; people facing foreclosure for any reason may be eligible to be counseled with funds from this program. The program does place some other limitations on who can be assisted. For example, by law NFMCP funds can only be used to assist owner-occupants. Finally, as was described in an earlier section, NSP does not aim to prevent foreclosures but rather provides funding to communities to help reduce the supply of foreclosed properties.

NFMCP

As of January 31, 2010, NeighborWorks had distributed nearly $441 million in National Foreclosure Mitigation Counseling Program (NFMCP) funding.[23] According to a recent report to Congress, it had distributed funding to over 170 organizations, which had collectively provided counseling to over 871,000 homeowners.[24] The states that have received the most assistance through the NFMCP,in terms

[23] This total includes $25.1 million awarded to eligible agencies to provide legal assistance to homeowners facing foreclosure.

[24] [24] NeighborWorks America, "National Foreclosure Mitigation Counseling Program Congressional Update: Activity through (continued...)

of the percentage of total counseling "units" delivered through the NFMCP, are California, Florida, Ohio, and Illinois.[25] (An individual homeowner may receive more than one unit of counseling.)

California had received the most units of NFMCP counseling, with nearly 171,000 units of counseling delivered (about 17% of all delivered NFMCP counseling units). Florida was second with nearly 77,000 counseling units, or 8% of all NFMCP counseling units. Ohio, Illinois, and Michigan ranked third, fourth, and fifth, respectively, with Arizona ranking 10th, New Jersey ranked 19th, and Nevada ranked 21st.

Table 2 shows the state share of total NFMCP counseling units delivered compared to the state share of the total number of seriously delinquent loans in the United States for each selected state. In general, most states are receiving a share of NFMCP counseling units similar to their shares of seriously delinquent loans in the United States. Florida is one exception to this. Just as Florida accounts for a smaller share of active HAMP modifications than its share of seriously delinquent mortgages, it also accounts for an appreciably smaller share of total NFMCP counseling units. The NeighborWorks report notes this as well, and suggests that this may be because many of the foreclosures in Florida are on investment properties, and NFMCP funds cannot be used for counseling in relation to investment properties.[26] Florida may have a larger number of vacation homes as well. If accurate, this could also account for why Florida has a lower percentage of total active HAMP modifications in the U.S. than might be expected, as HAMP also stipulates that only owner-occupants and principal residences are eligible for a modification.

NFMCP Counseling Units in Las Vegas, Nevada and the Central Valley, CA

Las Vegas has been awarded over 16,000 units of counseling through the NFMCP, and nearly 14,000 of these counseling units have been delivered. This represents about 1.5% of all counseling units awarded across the U.S.

The Central Valley includes the Stockton, Merced, and Modesto metropolitan statistical areas (MSAs). Stockton, Merced, and Modesto together account for over 14,000 awarded units of NFMCP counseling, nearly 11,000 of which have been delivered. This represents about 1.3% of all NFMCP counseling units awarded.

(...continued)

January 31, 2010," May 28, 2010, http://www.nw.org/network/nfmcp/documents/CongressionalReportandAppendices.pdf.

25 Ibid., pp. 34-35.

26 NeighborWorks America, "National Foreclosure Mitigation Counseling Program Congressional Update: Activity through January 31, 2010," May 28, 2010, http://www.nw.org/network/nfmcp/documents/CongressionalReportandAppendices.pdf.

Table 2. State Shares of All Seriously Delinquent US Loans and NFMCP Counseling Units

State	State Shares of U.S. Seriously Delinquent Loans	State Shares of Total NFMCP Counseling Units
Arizona	3.4%	3.3%
Nevada	2.5%	1.6%
California	16.4%	17.0%
Florida	17.2%	7.6%
Michigan	3.4%	4.4%
Ohio	3.3%	6.4%
Illinois	4.8%	5.1%
New Jersey	3.3%	1.8%

Source: Mortgage Bankers Association; NeighborWorks America

Notes: Shares of seriously delinquent mortgages are calculated using Q2 2010 MBA data. Shares of NFMCP counseling units delivered are based on NFMCP data through January 31, 2010.

NSP

To date, a total of $6.92 billion has been appropriated to the Neighborhood Stabilization Program (NSP) through three rounds of funding: NSP 1 received an appropriation of $3.92 billion in HERA; NSP 2 received an appropriation of $2 billion in ARRA; and NSP3 received an appropriation of $1 billion in Dodd-Frank. **Table 3** shows the amount of allocated funding and the percentage of total allocated funding that went to each of the states examined in this memo in each round of NSP funding.

Table 3. Allocations of NSP Funding in the Selected States

$ in millions

State	NSP 1 Allocation	% of Total NSP 1 Allocation	NSP 2 Allocation	% of Total NSP 2 Allocation	NSP 3 Allocation	% of Total NSP 3 Allocation
Arizona	$121.1	3.09%	$117.9	6.11%	$45.4	4.68%
Nevada	$71.9	1.84%	$21	1.09%	$43.3	4.47%
California	$529.6	13.51%	$318.0	16.48%	$149.3	15.39%
Florida	$541.4	13.81%	$348.3	18.05%	$208.4	21.49%
Michigan	$263.6	6.72%	$223.9	11.60%	$57.5	5.93%
Ohio	$258.1	6.58%	$175.2	9.08%	$51.8	5.34%
Illinois	$172.5	4.40%	$160.2	8.30%	$30.1	3.11%
New Jersey	$64.0	1.63%	$46.8	2.43%	$11.6	1.20%

Source: CRS Report RS22919, *Community Development Block Grants: Neighborhood Stabilization Program; Assistance to Communities Affected by Foreclosures* , by Eugene Boyd and Oscar R. Gonzales, citing http://www.hud.gov/nsp; http://hudnsphelp.info/docs/nsp2grantchart.pdf; and http://portal.hud.gov/portal/page/portal/HUD/documents/nsp3_funding_chart.pdf.

Notes: NSP1 percentages are out of the total $3.92 billion appropriated. NSP 2 percentages are out of $1.93 billion allocated, not the $2 billion appropriated, and NSP 3 percentages are out of $970 million allocated, not the $1 billion appropriated. The appropriated amounts for NSP 2 and NSP 3 each included funding for technical assistance that was awarded separately.

For some states, the percentage of overall funding allocated in each round of NSP has fluctuated quite a bit. This likely has to do at least partly with the differences in the way each of the three rounds of NSP funds were distributed. NSP 1 funds were distributed to the 50 states, the District of Columbia, and U.S. territories on the basis of a formula developed by HUD. Each state's allocation was then further distributed to local governments using a second formula that allocated funds based on a community's relative share of foreclosures and abandoned homes in the state. NSP 2 funds were distributed competitively to states, local governments, nonprofit entities, and consortia of for-profit and nonprofit entities, partially based on the highest number and percentage of foreclosures. HUD could also take into account additional factors that measure project quality. Like NSP 1, NSP 3 funds were awarded based on a formula developed by HUD.

As of May 2010, NSP 1 grantees have committed $2.2 billion for NSP activities, with 32.7% of those funds committed to property acquisition, 26.9% committed to residential rehabilitation activities, 9.9% for new residential construction, 7.2% for homeownership activities, 4.9% for clearance/demolition activities, 3.2% for land banking, 1% for public facilities, and 14.1% for other activities. Funds from the other two rounds of NSP were only recently awarded: NSP 2 funds were awarded in January 2010, and NSP 3 funds were awarded in September 2010.

HAMP

As of July 31, 2010, over 1.3 million trial modifications have started under Home Affordable Modification Program (HAMP). Of these, nearly 678,000 are active modifications. (Active modifications include both active trial modifications and permanent modifications.) Nearly 256,000 of these active modifications are active trials, and about 422,000 are active permanent modifications. Close to 630,000 modifications have been canceled; most of these were trial modifications.

Five states account for nearly half of all active HAMP modifications. These states are California (23%), Florida (12%), Illinois (5%), Arizona (5%), and New York (4.5%). These states also account for over 45% of seriously delinquent mortgages in the United States. Note that larger states will tend to have more mortgages, and therefore more serious delinquencies and more modifications, than smaller states, so it is not surprising that several large states are among the states with the highest proportions of HAMP modifications. Although less populous states like Nevada have high delinquency and foreclosure rates, such states also tend to have fewer mortgages, and therefore fewer numbers of delinquencies and modifications.

HAMP Activity in Las Vegas, Nevada and the Central Valley, CA

There were 15,108 active HAMP modifications in the Las Vegas-Paradise metropolitan area as of July 31, 2010. This included 5,866 active trial modifications and 9,242 permanent modifications. These figures accounted for 82.4% of all active modifications in Nevada.

Through July 31, 2010, the Stockton MSA accounted for 4,872 active HAMP modifications; Merced accounted for 1,364 active HAMP modifications, and Modesto accounted for 3,380 active HAMP modifications. Together, Stockton, Merced, and Modesto account for 9,616 active HAMP modifications, which is about 6% of all active modifications in California, and about 1.4% of active HAMP modifications in the United States.

In general, most states' shares of the total number of active HAMP modifications in the United States are roughly similar to that state's share of the total number of seriously delinquent mortgages in the United States.[27] Two exceptions to this among the states that are examined in this memo are California and Florida. California accounts for an appreciably larger share of all HAMP modifications (23%) than it does of all serious delinquencies (16%). On the other hand, Florida accounts for an appreciably smaller share of all HAMP modifications (12%) than it does of serious delinquencies (17%). Arizona also has a somewhat higher share of total HAMP modifications (5%) than its share of the total number of seriously delinquent loans in the United States (3.4%), while Ohio (2.2%) also has a somewhat lower share of total HAMP modifications than its share of total seriously delinquent loans (3.3%). **Table 4** illustrates the shares of all seriously delinquent mortgages in the United States and all active HAMP modifications in the U.S. for the selected states.

Table 4. State Shares of All US Seriously Delinquent Loans and HAMP Modifications

State	Share of U.S. Seriously Delinquent Loans	Share of Active HAMP Modifications
Arizona	3.4%	5.0%
Nevada	2.5%	2.7%
California	16.4%	22.8%
Florida	17.2%	12.1%
Michigan	3.4%	3.3%
Ohio	3.3%	2.2%
Illinois	4.8%	5.3%
New Jersey	3.3%	3.3%

Source: Mortgage Bankers Association; Treasury's Making Home Affordable Servicer Performance Report as of July 2010

Notes: Seriously delinquent loans include loans that are either 90 or more days past due or in the foreclosure process.

Many observers have criticized HAMP for not having helped more borrowers achieve permanent mortgage modifications to date. There are several possible reasons why more borrowers may not be benefitting from HAMP.

First, consumer advocates, housing counselors, and some government watchdogs have suggested that mortgage servicers are not adequately implementing the program in many instances.[28] These critics of the program suggest that many more borrowers could qualify for either trial or permanent modifications, but servicers are wrongly denying people modifications through the program.

Another reason that more people may not be benefitting from HAMP is that only certain types of mortgages and borrowers qualify for HAMP. The Obama Administration has stated that not all foreclosures are or should be prevented, and HAMP is designed to help prevent foreclosure among a

[27] Data from the Mortgage Bankers Association's National Delinquency Survey for the second quarter of 2010 are used to compute state shares of seriously delinquent mortgages. Seriously delinquent mortgages are defined as being 90 or more days past due or in the foreclosure process.

[28] For example, see Congressional Oversight Panel, "April Oversight Report: Evaluating Progress on TARP Foreclosure Mitigation Programs," April 14, 2010, p.71, http://cop.senate.gov/documents/cop-041410-report.pdf

certain subset of borrowers who are deemed to be deserving of help.[29] For example, along with other eligibility criteria, borrowers must be owner-occupants living in the homes as their principal residences, and must owe less than $729,750 (the current Fannie Mae/Freddie Mac conforming loan limit in high-cost areas) on their mortgages.[30] Therefore, investment properties do not qualify for the program; nor do second homes or vacation homes. People with mortgage balances over the limit also do not qualify. This suggests that HAMP's ability to prevent foreclosures may be limited in areas with high numbers of investment properties or second homes, or in areas where housing is expensive and consequently many people may have taken out non-conforming mortgages with principal balances above the Fannie Mae/Freddie Mac limit.

A third reason that HAMP may not be benefitting more people is that the program is primarily targeted at helping people with permanently unaffordable mortgage payments avoid foreclosure. While people who are unemployed or who have negative equity in their homes may be able to benefit from HAMP, the program is not primarily designed for these types of borrowers. First, borrowers who are unemployed or who have negative equity may find it difficult to qualify for HAMP. (For example, someone who is unemployed will not have much income to make even modified payments, which is likely in many cases to contribute to a negative net present value result for a modification compared to foreclosure. Negative equity may also contribute to a negative net present value result. A modification must have a positive net present value for the investor compared to foreclosure for a servicer to be required to offer a modification.) Second, even if someone who is unemployed or who has negative equity can qualify for the program, the solution is not particularly well-targeted to such borrowers' problems. HAMP does not reduce the principal balance owed on a mortgage, so someone with negative equity will not see a change in the total principal amount they owe on the mortgage. Borrowers who are unemployed may have trouble sustaining even a modified mortgage payment on their current income, even if they can qualify for a modification. Furthermore, a permanent HAMP modification is a permanent solution, so unemployed borrowers that do qualify for the program and later become re-employed continue to make the modified mortgage payment for the life of the mortgage.[31] Therefore, it might be expected that HAMP would assist more people in areas that had a large number of non-traditional mortgages that may have led to unaffordable mortgage payments through resetting loan terms or other mortgage features. HAMP might work less well in areas where the primary drivers of foreclosure are high unemployment rates (because it may be more difficult for unemployed borrowers to qualify) or steeply falling home prices (because HAMP does not address the specific problem of negative equity).

The relatively high percentage of HAMP modifications in California compared to other states could be due to a variety of reasons, but one possibility is that HAMP's objective of lowering monthly payments could be particularly well-targeted to the major drivers of foreclosure seen in some areas of California. Furthermore, from Fannie Mae's data it appears that California had a relatively high number of interest-only and negative amortization mortgages. HAMP is targeted to address unaffordable monthly mortgage payments such as those that could result from payment changes on these types of mortgages.

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[29] For example, see U.S Department of the Treasury, "Making Home Affordable Updated Detailed Program Description," March 4, 2009, page 3, http://www.treas.gov/press/releases/reports/housing_fact_sheet.pdf, stating that HAMP will have "common sense restrictions" and that the program will "focus solely on supporting responsible homeowners...it will not aid speculators or house flippers."

[30] This is the limit on the amount that can be owed on a one-unit home. Higher limits are in place for two- to four-unit homes.

[31] The interest rate on a HAMP modification is allowed to rise incrementally after five years to the Freddie Mac Primary Mortgage Market Survey rate at the time that the modification was agreed to, if that rate is higher than the modified interest rate. Otherwise, the terms of a permanent HAMP modification do not change, even if a previously unemployed borrower becomes re-employed.

However, California in general, and some specific areas (such as the Central Valley), have experienced the relatively large house price declines that HAMP is not primarily designed to assist. Another possible reason for the relatively large share of HAMP modifications in California is simply that, because California is such a big state and has so many mortgages, there are more mortgages and borrowers that may be able to meet the HAMP eligibility criteria, even if the program is not especially well-targeted to address the primary drivers of foreclosure in many parts of California.

Hardest Hit Fund

As described earlier in this white paper, the Hardest Hit Fund has allocated funding to a total of 18 states and D.C. through a total of three rounds of funding. Each round of funding was allocated to states based on a different set of criteria. Nine states have received funding through both one of the first two rounds and the third round. **Table 5** shows the amount of Hardest Hit Fund funding that has been allocated to the states being examined in this memo.

Table 5. Hardest Hit Fund Allocations to Selected States

$ in millions

State	Round 1	Round 2	Round 3
Arizona	$125	--	--
Nevada	$103	--	$34
California	$700	--	$476
Florida	$418	--	$239
Michigan	$155	--	$128
Ohio	--	$172	$149
Illinois	--	--	$166
New Jersey	--	--	$112

Source: Administration press releases, available at http://makinghomeaffordable.gov/pr_02192010.html; http://makinghomeaffordable.gov/pr_08042010.html; and http://makinghomeaffordable.gov/pr_08112010.html.

Notes: A total of $1.5 billion was awarded to the five states shown in Round 1; a total of $600 million was awarded in Round 2, and North Carolina, Oregon, Rhode Island, and South Carolina also received funding in this round; $2.1 billion was awarded in Round 3, to Alabama, Georgia, Indiana, Kentucky, Mississippi, North Carolina, Oregon, Rhode Island, South Carolina, Tennessee, and Washington, D.C. as well as to the states shown.

State-submitted plans for the first two rounds of funding were approved by Treasury on June 23, 2010 and August 4, 2010, respectively. This section briefly describes what each of the selected states being examined in this memo plan to do with their Hardest Hit Fund allocations.

The first round of Hardest Hit Fund funding was awarded to five states that have experienced the steepest home price declines since the peak of the housing market. All five of these states are included in this memo: Arizona, Nevada, California, Florida, and Michigan. The states have designed a number of programs to use the funding, all of which tend to fall into several categories. These include: 1) programs to reduce principal balances for homeowners who are have negative equity in their homes; 2) programs to help modify or remove second liens; 3) temporary assistance with mortgage payments for unemployed or underemployed borrowers; 4) mortgage reinstatement programs to help households that can afford their mortgage payments going forward to catch up on late payments and bring their mortgages current; 5) programs to facilitate short sales or deeds-in-lieu of foreclosure as alternatives to foreclosure; and 6) programs to help borrowers qualify for a mortgage modification.

All five of the states that received funding in the first round are using part of their funding for some kind of principal reduction program. Since the funding was awarded to states with the largest house price declines, it is logical that negative equity would be a major factor in these states, and it is not surprising that these states have chosen to target people with negative equity through principal reduction programs. In addition, four states are funding temporary mortgage assistance programs, three states are funding second lien modification programs, and two states apiece are funding mortgage reinstatement programs and foreclosure alternatives programs. **Table 6** illustrates the types of programs that each of the five states are funding with first round monies.

Table 6. Types of State Programs Funded by Rounds 1 of the Hardest Hit Fund

Nevada	Arizona	California	Florida	Michigan
Principal Reduction	Principal Reduction	Principal Reduction	Principal Reduction	Principal Reduction
Second Lien	Second Lien		Second Lien	
	Temporary Mortgage Assistance	Temporary Mortgage Assistance	Temporary Mortgage Assistance	Temporary Mortgage Assistance
		Mortgage Reinstatement		Mortgage Reinstatement
Foreclosure Alternatives		Foreclosure Alternatives		

Source: State Hardest Hit Fund proposals, available at http://financialstability.gov/roadtostability/hardesthitfund.html

The second round of Hardest Hit Fund funding was awarded to five states with large percentages of their population living in counties with high unemployment rates. These states are North Carolina, Ohio, Oregon, Rhode Island, and South Carolina. Of these states, only Ohio is being examined in this memo.

All five of the states receiving funding in the second round of the Hardest Hit Fund are funding both temporary mortgage assistance and mortgage reinstatement programs. Again, this is logical, as the funds were awarded to states with large percentages of their population living in high-unemployment areas. Temporary mortgage assistance programs are targeted to those who are unemployed or underemployed, while mortgage reinstatement programs may assist borrowers who have previously been unemployed, regained new employment, but are having trouble paying the past due amounts on their mortgages. In addition to these programs, four states are funding foreclosure alternatives programs, three states are funding modification assistance programs, and two states are funding second lien modification programs. No states in the first round of funding are using the funding for modification assistance programs. More second-round states may have chosen to fund these programs because borrowers who are unemployed often find it difficult to qualify for existing foreclosure prevention programs; such borrowers may need help qualifying for mortgage modifications under these programs.

Table 7 illustrates the types of programs that each of the states in the second round are funding.

Table 7. Types of State Programs Funded by Round 2 of the Hardest Hit Fund

North Carolina	Ohio	Oregon	Rhode Island	South Carolina
Principal Reduction	Principal Reduction			
Second Lien				Second Lien Program
Temporary Mortgage Assistance	Temporary Mortgage Assistance	Temporary Mortgage Assistance	Temporary Mortgage Assistance	Temporary Mortgage Assistance
Mortgage Reinstatement	Mortgage Reinstatement	Mortgage Reinstatement	Mortgage Reinstatement	Mortgage Reinstatement
	Foreclosure Alternatives	Foreclosure Alternatives	Foreclosure Alternatives	Foreclosure Alternatives
		Modification Assistance	Modification Assistance	Modification Assistance

Source: State Hardest Hit Fund proposals, available at http://financialstability.gov/roadtostability/hardesthitfund.html

With the exception of Arizona, all of the states that received funding in one of the first two rounds are also receiving funding in the third round. Illinois and New Jersey are among the states that are receiving Hardest Hit Fund funding for the first time in the third round. As mentioned, all of the programs funded through the third round of funding must target unemployed borrowers.

Conclusion

As hardworking American families struggle to hold onto their homes, it is imperative that we continue to review the progress we have made in easing the burden on American families and search for workable solutions that would protect them. We urge the Administration and the 112th Congress to thoroughly review all existing government programs, make badly needed changes, and implement additional programs as appropriate to make full use of the funds Congress has already authorized to mitigate foreclosures. Until we fix the housing market, our nation's economy will be unable to fully recover. A far-reaching, comprehensive and coordinated effort is needed but thus far the leadership necessary to deliver concrete solutions has not materialized.