

NSP Program Description

Neighborhood Stabilization Program (NSP)

The Neighborhood Stabilization Program (NSP) was established for the purpose of stabilizing communities that have suffered from foreclosures and abandonment. Through the purchase and redevelopment of foreclosed and abandoned homes and residential properties, the goal of the program is being realized.

NSP1, a term that references the NSP funds authorized under Division B, Title III of the Housing and Economic Recovery Act (HERA) of 2008, provides grants to all states and selected local governments on a formula basis.

NSP2, a term that references the NSP funds authorized under the American Recovery and Reinvestment Act (the Recovery Act) of 2009, provides grants to states, local governments, nonprofits and a consortium of nonprofit entities on a competitive basis.

NSP3, a term that references the NSP funds authorized under the Dodd–Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) of 2010, provides a third round of neighborhood stabilization grants to all states and select governments on a formula basis.

NSP Resource Exchange is a one-stop shop for the information and resources needed by NSP grantees, sub-recipients and developers to purchase, rehabilitate, and resell foreclosed properties. There are three primary components to the Resource Exchange site including: Find a Resource, Ask a Question, and Request Technical Assistance.

Please visit the HUD website for more NSP information www.hud.gov and NSP best practices and success stories [NSP Best Practices](#).

NSP Financing/Voucher Options (partial list)

Housing Choice Voucher Homeownership Program

The Cuyahoga Metropolitan Housing Authority, Housing Choice Voucher Homeownership Program provides voucher assistance for an eligible family that purchases a program-approved single family dwelling unit for residence by the assisted family. To be eligible for participation, the family must be on the Housing Choice Voucher tenant-based program for one year, and have 12 consecutive months, full time employment; with a minimum \$15K annual income. The family is also required to have a minimum \$3K saved, or an Individual Deposit Account (IDA) or Family Self-sufficiency Program escrow account.

In order to qualify for a mortgage loan, a minimum credit score that meets local financing guidelines is required, in addition to being free of unresolved judgments and liens; and all unsettled or derogatory credit matters must be cleared.

A family must complete pre-purchase counseling, and obtain preapproval by a conventional lending institution. The elderly or disabled head of household member is exempt from the work requirement, and mortgage affordability is determined by the lender. The Cuyahoga Metropolitan Housing Authority will review financing terms for all applicants to confirm that a mortgage is affordable. The title company must provide the family and housing counselor with a complete closing package for a pre-close consultation before title transfer, to ensure that the family is educated about the transaction.

After the title transfers, voucher assistance is paid towards monthly mortgage expenses for a maximum of up to 15 years for working families, and throughout the term of the mortgage for elderly or disabled households, as long as the family remains eligible for the program.

OHFA Programs

The Ohio Housing Finance Agency's (OHFA) homeownership loan programs provide much needed assistance and benefits for qualified buyers. Whether you are a first-time buyer or a buyer in a target area, OHFA and our lending partners have a program that's right for you. Qualifying first-time homebuyers can choose from our competitive conventional and government-insured loans, all with 30-year, fixed-rate mortgages. This includes qualified buyers purchasing a home in a federally-designated target area. OHFA also has a program for Ohioans working in critical professions. This program provides a lower interest rate for qualified first-time homebuyers. A Down Payment Assistance Grant is also available for eligible buyers. This grant can be combined with OHFA's homeownership loan programs to help pay for down payments, closing costs, and other out-of-pocket expenses associated with buying a home.

OHFA also has a program for recent college graduates, including those earning a postgraduate degree. Qualified buyers may be eligible to receive 2.5% of their home's purchase price to help pay for down payment and closing costs when applying within 24 months of earning a degree from an accredited college or university.

Looking to build your new home? OHFA's New Home Sweet Home Program is an extended lock option for homebuyers who desire to build a new home through a builder and want to use OHFA's first-time homebuyer program to purchase the home.

For qualifying homebuyers, a Mortgage Credit Certificate (MCC) can increase a household's income by reducing federal income tax liability, giving the household additional funds that can be used to make mortgage payments.

Many homes for sale are currently in need of repair or modernization, but it can be challenging to pay for improvements after purchasing the property. If you're buying a property that needs rehabilitation and repair, the 203(k) loan offered by several OHFA participating lenders may be right for you. Please visit the OHFA website for additional details and how to qualify for these programs. www.ohiohome.org

Cuyahoga County Ideal Homes

The Ideal Homes program provides homebuyers with fully renovated, energy efficient and affordable houses in Cuyahoga County. Each Ideal Home is completely remodeled to include energy efficient upgrades such as Energy Star appliances. Additionally, qualified buyers of Ideal Homes will receive a forgivable loan up to 20% of the purchase price of the house. All Ideal Homes are available at www.idealhomesc.com.

The Ideal Homes program is a collaborative effort among Cuyahoga County, private developers and local communities to jointly market houses renovated using federal Neighborhood Stabilization Program funds throughout Cuyahoga County. By partnering with local lenders and real estate agents, the program seeks to expand these exceptional opportunities to more homebuyers.

Observations from the OMBA



Ohio Mortgage Bankers Association

1961-2011 Fifty Years of Service

Untapped Opportunities for Lenders and Real Estate Agents – June 23, 2011

Ohio Mortgage Bankers Association – Bob Niemi, Executive Director

My name is Bob Niemi and I am happy to be here representing the Ohio Mortgage Bankers Association. We are a not-for-profit trade association representing mortgage banking companies and affiliates who do business throughout Ohio. We were founded in 1961 and more information about OMBA can be found online at www.OhioMBA.org.

I must first say that this is a great session so far with great information being shared – I personally have taken six pages of notes. Thank you to Kim Gordon, to HUD and to all the other parties that have been involved in this to get us to this point and hope this is not the end. Seems there is still more to for us to do and more questions to be answered. I would suggest that this continue at the OHFA Housing Conference that happens each fall in late November / early December, this should be a panel session.

First let me first speak to a couple of rumors on how this was presented to me prior to my digging in and learning more about Neighborhood Stabilization Programs. I spoke to a couple of Realtors and lenders and was told both that this was an 'easy program' with NSP's 20% down payment and also that this was a difficult program to manage for the lender. In addition to the standard challenges every mortgage lender is facing today – Borrower Qualification, Appraised Values and Program Eligibility. Yes, every lender is struggling with these challenges on every mortgage program and every application – be it a purchase or refinance. Qualified borrowers are fewer in the recent increased underwriting standards and need for higher credit scores. Home values prove a challenge on a daily basis and has wreaked havoc on mortgage refinancing. Home values across Ohio have dropped and only now appear to have begun to stabilize. Program eligibility with not just the mortgage program, but what overlays each investor has applied – and all as you also heard earlier – seem to change on a daily basis.

But before I get too deep into my discussions on market and investor challenges, we have two other panelists here, Ruth Tippet from Huntington Mortgage and Dana Smith from the Ohio Housing Finance Agency. Each spoke about how they make NSP work – OHFA has said that NSP second mortgages are eligible for use on OHFA mortgages. Huntington has developed a portfolio mortgage program to allow NSP secured second mortgages as source of funds to close for qualified buyers.

So it turns out that this is not an 'easy program' and the flexibility that NSP provides may on one hand be a benefit – can also provide challenges to lenders. To illustrate this point about the challenges that NSP provides for lenders, think back to the first panel – we heard that each of the presenter's programs and how each has slight variances in how they are administered, what qualifications they required and how they reviewed for eligibility. We came here to discuss the NSP opportunities in Cleveland and Cuyahoga County – let alone the other NSP programs in Ohio. There are 56 separate NSP Grantees in Ohio. All 56 have slight variations in how their programs are administered and all with separate terms for how much is used as second mortgage, borrower qualifications, etc.

Yes, these are secured second mortgages not a down payment program. The use of a community second mortgage program like NSP must be approved by each lender and each investor. This must be done for each one of these 56 NSP programs in Ohio. The amount of the second mortgage must be accounted for with regards to the first mortgage loan to value and the combined loan to value. The loan may be forgiven over time, but day one at closing it is treated just like any other second mortgage in qualifying. Before today I did not realize that there are actually more than 56 separate NSP's with some groups today partnered and actually have several here today as sub-grantees. Each again must be reviewed not only by the lender who originates the loan, but the investor too who would purchase the loan and pool it for sale in a larger mortgage backed security. When you are a lender like Huntington doing business in a market, this provides more opportunity for business and then you work to find solutions. When you a multi-state investor looking at possibility of doing only a few loans from each of the individual NSP programs, you evaluate whether there is a cost benefit. Remember again that each needs to be reviewed initially to start and then reviewed annually or when anything changes, and they change. I know several investors that have no approvals for NSP second mortgage programs. This comes from the cost of having program reviewed for eligibility, programming, training, maintenance for changes, etc.

Mortgage loans today do not normally go right to a Fannie Mae, Freddie Mac or sold in a Ginnie Mae pool as an FHA or VA loan. They go to another investor who will aggregate the mortgages into larger pools for sale on the secondary market. These investors not only review second mortgage programs but work to secure mortgages that will have value on the secondary market and most offsets some of the challenges we see today with tighter underwriting standards. Also, every investor has overlays to the Fannie and Freddie

products and the last several years have brought loan level pricing adjusters. The cost to offset the risk of lower credit scores, higher loan to values and how they combine together. So the investor looking for mortgages to aggregate must decide if the value of a few loans production offsets of the costs for reviewing and approval of the program and then to train their staff, origination and underwriting and closing and post-closing, etc.

As we heard this morning, some of the individual programs may have 12-15 homes. One lender is not going to get all of those loans - we have several lenders here in attendance. So if each lender gets two to three of the homes to finance, again that illustrates the cost challenges to the lender to make this work. And we applaud the lenders here today for making it work. I would say to the Realtors here to work with one of these lenders and one of the loan officers who are already working with NSP programs. The time to learn about how to make it work is *'before it hits our desk'* as that is when delays will result from lack of knowledge. Let me say that again - work with someone who has invested the time to do the research before it hits their desk. So not just important to work with a bank or mortgage company who is financing NSP homes, but to work the individuals there that understand the program.

I also have comments or concerns moving forward with pending regulation and legislation. The QRM proposal for the definition is still pending to define what makes a Qualified Residential Mortgage. These are loans that do not require a 10% risk retention held by the lender. That is a big cost. If the current definition holds - 20% down payment and 28/36 ratios among other factors - we will see a change in mortgage lending. Those loans that qualify for QRM will cost much less and first time homebuyers with little down payment will pay the cost. This has to potential to stratify mortgage lending as we know it by price. Non-QRM loans could cost two to three points higher - or more.

Also the similar definition of Qualified Mortgage and how that relates to steering provisions by a mortgage lender. Basically, a mortgage lender must provide a borrower with three options that a borrower would reasonably be qualified for so the borrower can make a choice. The lender is then given safe harbor - protection from the anti-steering liability set in Dodd / Frank. But when you have a program that does not have two similar options, or a borrower that only qualifies for one type of mortgage program - the lender is at risk. For example suppose you a borrower with a credit score below 640 - OHFA works. But most FHA investors now require a 640 or above and most likely with low down payment there is no real conventional option. So, if the lender can only offer OFHA FHA and assume the risk the loan does not go bad anytime during the loan. So if the home is in an area with 10 year tax abatement and the borrower defaults in year 12 - they could sue you for putting them in that program. There needs to be more work put into this definition and unintended consequences too.

I would again thank HUD and all the other participants here today and those who have been on the conference calls. I also loved Dennis's quote this morning about HUD programs - "they don't work unless you make them work". I say meetings and initiatives like today are the same. We need to keep the flow of information on NSP programs moving, ask the questions and search out the answers and continue to make the effort to make this work - better. Thank you for including the OMBA in this discussion.

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