

SECTOR COMMENT

Success of Pennsylvania's HEMAP Is Credit Positive for State's Housing Finance Agency

Extracted from "[Moody's Weekly Credit Outlook](#)", dated May 2, 2011

Analyst Contacts:

NEW YORK	1.212.553.1653
Ferdinand Perrault	1.212.553.4793
<i>Assistant Vice President-Analyst</i>	
Ferdinand.Perrault@moody.com	

An April 2011 study by the New York Federal Reserve¹ found that Pennsylvania's foreclosure prevention program, the Home Emergency Mortgage Assistance Program (HEMAP), has been more successful than the national Home Affordable Modification Program (HAMP) in modifying mortgage loans for financially strapped borrowers and avoiding loan foreclosures and the associated loan losses. Approximately 5,000 borrowers who obtained loans through the Pennsylvania Housing Finance Agency (PHFA) also received HEMAP assistance. That resulted in lower foreclosure rates in the PHFA portfolio, which reduced potential loan losses for the single-family program and is credit positive.

While HAMP was intended to modify 3–4 million loans, only 580,000 loans nationwide have received permanent modifications and the cost is expected to be significant, at approximately 6% of the loan. In contrast, HEMAP has made 43,000 loans throughout the state with an average cost of less than 1% of the loan and a high success rate, with 80% of borrowers avoiding foreclosure.

The Pennsylvania HEMAP program, created in 1983, is designed to protect Pennsylvanians who are financially unable to make their mortgage payments and are in danger of losing their homes to foreclosure. HEMAP funds are loaned to eligible borrowers both to bring delinquent loans current and to assist borrowers in making monthly mortgage payments for up to 24 months (or 36 months when the Pennsylvania unemployment rate exceeds 6.5%). The loan payments end once the borrower is reemployed, at which point he or she must begin repaying the loan. The program is administered by PHFA and funded by state appropriations and repayment of existing HEMAP loans.²

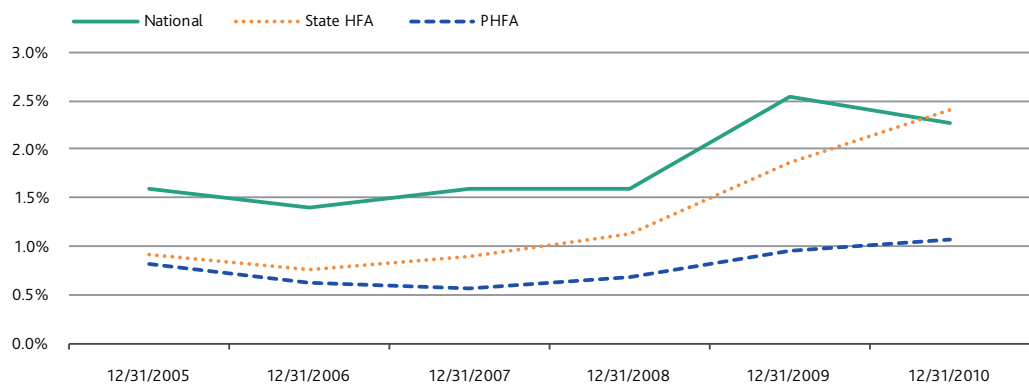
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¹ [Help for Unemployed Borrowers: Lessons from the Pennsylvania Homeowners' Emergency Mortgage Assistance Program](#) authored by James Orr, Volume 17, Number 2.
² The proposed state budget for fiscal 2011-2012 did not include an appropriation for HEMAP. While this would reduce the ability of HEMAP to take on new applications, this reduction is more than offset by a grant from HUD for \$105 million for a foreclosure prevention program for borrowers in the state. The new program has been modeled on HEMAP, administered by the PHFA and will also be available to PHFA borrowers.

Mortgagors throughout the state, including those who received loans from the PHFA's Single Family Mortgage Revenue Bond Program (Program), are eligible for HEMAP loans. PHFA's Program (Aa2 stable) was established in April 1982 for the purpose of financing single-family mortgage loans to low- and moderate-income first-time homebuyers. As of year-end 2010, the Agency had originated (since inception of the program) a total of 128,622 mortgage loans in an aggregate principal amount of \$8.6 billion, of which 49,352 loans with principal of \$3.7 billion remain outstanding. HEMAP has funded loan modifications for approximately 4% of the loans funded by PHFA and has helped keep foreclosure rates relatively low and, as illustrated in the following exhibit, below those of other state housing finance agencies (HFA) and the national averages as reported by the Mortgage Bankers Association.

PHFA Foreclosure Rates Remain Below National and State HFA Averages



Source: Mortgage Bankers Association National Delinquency Survey, FHA FRM, Q4 2010; Moody's HFA Survey; Pennsylvania Housing Finance Agency

One of the key drivers in a state HFA single-family bond program performance is its loan portfolio. High levels of foreclosures reduce the programs' financial position because it is likely that homes sold after a foreclosure will not generate sufficient proceeds after receipt by PHFA of mortgage insurance payments to pay off its outstanding mortgage loan, thereby generating a loss to the program. This loss reduces the program's loan balances, and thus weakens the program's asset-to-debt ratio. Loss mitigation and foreclosure prevention programs such as HEMAP can reduce foreclosures and the probability of such losses, thereby supporting the financial strength of the program, as reflected in its asset-to-debt ratio.

The availability and success of the HEMAP program has been credit positive for PHFA as it has contributed to the relatively low foreclosure rate of its single-family portfolio and strengthened the financial position of the program. The single-family portfolio had a foreclosure rate of only 1.07% as of year-end 2010, which is well below the national average of 3.09%³ and the 2.41% median for our rated state housing finance agency (HFA) single-family program. Despite Pennsylvania's unemployment rate of over 8% throughout the past year, the foreclosure rate has remained fairly steady, rising only slightly, from 0.96% and 0.95% as of 30 June 2010 and year-end 2009, respectively. This has been one of the factors contributing to the financial strength of the program, as evidenced by PHFA's asset-to-debt ratio, which has grown steadily over the past five years to 109.3% as of 30 June 2010 from 104.6% in 2005.

³ MBA National Delinquency Study, Q4 2010; Percent of Loans in Foreclosure (inventory at quarter-end)

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Author
Ferdinand Perrault

Senior Production Associate
Diana Brimson

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