

COMMONWEALTH OF PENNSYLVANIA
HOUSE OF REPRESENTATIVES
APPROPRIATIONS COMMITTEE HEARING
BUDGET HEARING

STATE CAPITOL
MAJORITY CAUCUS ROOM
HARRISBURG, PENNSYLVANIA

WEDNESDAY, FEBRUARY 20, 2008, 9:00 A.M.

VOLUME I OF VI

PRESENTATION BY
PENNSYLVANIA HOUSING FINANCE AGENCY

BEFORE:

HONORABLE DWIGHT EVANS, CHAIRMAN
HONORABLE MARIO J. CIVERA, JR., CHAIRMAN
HONORABLE STEPHEN E. BARRAR
HONORABLE STEVEN W. CAPPELLI
HONORABLE H. SCOTT CONKLIN
HONORABLE BRIAN ELLIS
HONORABLE DAN B. FRANKEL
HONORABLE JOHN T. GALLOWAY
HONORABLE WILLIAM F. KELLER
HONORABLE BRYAN R. LENTZ
HONORABLE TIM MAHONEY
HONORABLE KATHY M. MANDERINO
HONORABLE MICHAEL P. MCGEEHAN
HONORABLE RON MILLER
HONORABLE JOHN MYERS
HONORABLE CHERELLE PARKER
HONORABLE SCOTT A. PETRI
HONORABLE DAVE REED
HONORABLE DOUGLAS G. REICHLEY
HONORABLE DANTE SANTONI, JR.

1 BEFORE: (cont'd.)
2 HONORABLE MARIO M. SCAVELLO
3 HONORABLE JOSHUA D. SHAPIRO
4 HONORABLE JOHN SIPTROTH
5 HONORABLE DON WALKO
6 HONORABLE JAKE WHEATLEY, JR.

7
8 ALSO PRESENT:
9 MIRIAM FOX
10 EDWARD NOLAN

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JEAN M. DAVIS, REPORTER
NOTARY PUBLIC

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I N D E X
TESTIFIER

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BRIAN A. HUDSON, SR.	4

1 CHAIRMAN EVANS: Good morning. The hour of 9
2 o'clock having arrived, we will convene the House
3 Appropriations Committee meeting.

4 We have on the agenda first the Pennsylvania
5 Housing Finance Agency.

6 Mr. Hudson, you know the rule.

7 MR. HUDSON: Yes; you are going to ask
8 questions.

9 CHAIRMAN EVANS: The rule is that we go right
10 into the questions. We get to go into it right away;
11 we get to go right away.

12 MR. HUDSON: Yes, sir, Mr. Chairman.

13 CHAIRMAN EVANS: I would like to start off by
14 saying that I know how good of a job you have been
15 doing at the agency for a long time.

16 MR. HUDSON: Thank you.

17 CHAIRMAN EVANS: But what I'm most interested
18 in is what is happening with HEMAP, and this is your
19 opportunity to obviously tell us and to educate us
20 about what is happening with HEMAP and what is the
21 need, particularly with the market that we are in
22 with foreclosures occurring.

23 So can you talk a little bit about HEMAP? As
24 I understand it, there's going to be a shortfall,
25 potentially by June 30, and it's something that the

1 members need to know and understand, because I know
2 how important HEMAP is to the State. So do you want
3 to talk a little bit about HEMAP?

4 MR. HUDSON: Yes, sir.

5 CHAIRMAN EVANS: Just describe it.

6 MR. HUDSON: Thank you, Mr. Chairman and
7 members of the committee.

8 In answer to your question, the HEMAP
9 program, as you know, was started in 1983, and I can
10 say that for the first year, we've actually broke the
11 10,000 mark in applications for the current
12 environment.

13 The subprime crisis has affected the program.
14 We're seeing more applications across the
15 Commonwealth for HEMAP. Some of those we are able to
16 help, a lot of them we cannot help. We did develop a
17 couple of new products, which I will talk about later
18 in my testimony.

19 We asked for a \$13 million appropriation for
20 the '08-09 budget year. I think we're in for \$11
21 million. We are projecting a shortfall that would
22 occur before the end of the current fiscal year of
23 about \$1 million to \$1.5 million.

24 Now, the biggest impact that the subprime
25 crisis has had on the market is that we see that

1 decrease in our repayments. Individuals that
2 normally would have an opportunity to refinance, that
3 is no longer available to them.

4 So as credit has tightened, we're not seeing
5 the amount of payoffs that we would typically under
6 the program. We're down to like 84 loans paid off,
7 which typically that would be around 103, 105 loans,
8 down \$4 million per year annually. So we are seeing
9 an impact with HEMAP.

10 CHAIRMAN EVANS: Okay.

11 MR. HUDSON: What we are attempting to do
12 internally within PHFA is to coordinate our efforts
13 with our refi programs for HEMAP applicants.

14 We are using HEMAP somewhat as a bridge to
15 provide temporary assistance to homeowners so that we
16 can get them refinanced into one of our refinance
17 products at that point in time, but we are seeing a
18 need for an additional appropriation for the program.

19 CHAIRMAN EVANS: And if that additional
20 appropriation should not occur, tell me what will
21 occur. What will happen?

22 MR. HUDSON: Well, by law, we have to
23 advertise to close the program down, a 60-day notice
24 in the Bulletin -- the Pennsylvania Bulletin needs to
25 be published -- and then we effectively would have to

1 cease operation of the program.

2 There's always a trickle of funds coming in.
3 It becomes a question of, how many loans can you do
4 under the HEMAP program going forward?

5 Right now, we approve about 2,200 loans
6 annually. Our approval percentage is hovering around
7 the 26-percent level. That has been the same for the
8 last year or two. But we do see that increased need,
9 and just to use that program to help bridge the
10 homeowners until we can get them refinanced actually.

11 CHAIRMAN EVANS: Thank you.

12 Representative Mario Civera.

13 CHAIRMAN CIVERA: Thank you, Mr. Chairman.

14 In this year's budget, there is \$11 million
15 that has been appropriated, and the Governor has
16 proposed \$11 million, but instead you are asking for
17 \$13 million. What dollars do you need for the fiscal
18 year for this year?

19 MR. HUDSON: For the current fiscal year?

20 CHAIRMAN CIVERA: Yeah.

21 MR. HUDSON: Well, we have \$10 million in the
22 current fiscal year, and we're going to probably run
23 short about a million, a million and a half, so we
24 would actually need about \$11 to \$11 1/2 million for
25 the current fiscal year based on the program volume.

1 In the new budget that we proposed, we did
2 ask for \$13 million, and \$11 million was in the
3 budget. So we were looking for \$13 million.

4 CHAIRMAN CIVERA: So you're looking for \$13
5 million?

6 MR. HUDSON: Yes.

7 CHAIRMAN CIVERA: And if you don't get the
8 \$13 million, what are the repercussions with
9 everything that is going on with housing?

10 MR. HUDSON: Well, the repercussions of that,
11 we won't be able to help as many homeowners, and not
12 just for HEMAP assistance but also to try to give
13 them temporary assistance for the agency to get the
14 ability to refinance those homeowners. So the
15 program would operate somewhat at a reduced rate.

16 CHAIRMAN CIVERA: I see.

17 MR. HUDSON: We're at 26-percent approval
18 now. Where we do 2,200 loans, that may go down to
19 1,800 or 1,900 loans, so we would be able to help
20 less homeowners, quite truthfully.

21 CHAIRMAN CIVERA: With the housing market the
22 way it is at the moment and the climate that we're
23 in, your applications are up?

24 MR. HUDSON: Yes.

25 CHAIRMAN CIVERA: What is the percentage of

1 that?

2 MR. HUDSON: Well, we saw a 6-percent
3 increase---

4 CHAIRMAN CIVERA: What did you say? Six?

5 MR. HUDSON: Yeah; a 6-percent increase from
6 '06 to '07, and we were at 10,592 in applications for
7 the 2007 year. We were at a little over 9,500, about
8 9,500 applications. So we're up about almost a
9 thousand applications.

10 CHAIRMAN CIVERA: Thank you, Mr. Chairman.

11 CHAIRMAN EVANS: Thank you.

12 Representative Scott Conklin.

13 REPRESENTATIVE CONKLIN: Thank you, Mr.
14 Chairman.

15 Just a clarification, and then I have one
16 more question.

17 My understanding of this program is that as
18 long as it is in existence, it slows down the
19 foreclosure on a home, that as long as it is there,
20 the banks have to go through a certain process which
21 slows the foreclosure down and gives the folks time
22 not only to work with your organization but other
23 organizations.

24 But I also understand that if you run out of
25 money, you close down, which means the banks then can

1 go directly to foreclosure, which speeds up that
2 process. Is that true?

3 MR. HUDSON: That's correct.

4 REPRESENTATIVE CONKLIN: The second question
5 I have--- And that is disturbing, that fact, to say
6 the very least.

7 The second question I have, tell me, since
8 these are all working individuals, could you tell me
9 the approximate income brackets of these folks,
10 because I know that within my area, I see that coming
11 into my office. Folks are in foreclosure because of
12 whether a plant they had worked at has closed down or
13 other parts beyond their control have shut down, and
14 they have gone from making, say, \$45,000 a year to
15 working maybe one or two of the wonderful
16 minimum-wage jobs that we now have and they just
17 can't make ends meet. Do you have any types of
18 statistics that show the average income bracket of
19 these folks that need help?

20 MR. HUDSON: I don't have those with me
21 today, but I will get those to you.

22 I can tell you that these are not high-income
23 individuals. We are probably looking at incomes
24 ranging from \$50,000 to \$75,000 on an average. We
25 are not seeing the higher-income individuals,

1 sometimes one- or two-person working families, but we
2 are talking about average working families here.

3 REPRESENTATIVE CONKLIN: And the point I am
4 only trying to make is, just to make myself clear, I
5 am trying to show, one, how important it is, and two
6 is that these are those folks that, because they work
7 hard, don't have that expendable income. With the
8 price of gas, the price of heating fuel, and the
9 price of everything now, they are falling behind on
10 their mortgage payments. That's the only point I'm
11 trying to make from it.

12 Thank you very much.

13 MR. HUDSON: That's correct.

14 CHAIRMAN EVANS: Thank you.

15 Representative David Reed.

16 REPRESENTATIVE REED: Thank you, Mr.
17 Chairman.

18 Last year at the budget hearing, we learned a
19 little bit about a new initiative through your
20 agency, and if I remember correctly, it deals with
21 the construction and reconstruction of day-care
22 centers?

23 MR. HUDSON: Yes.

24 REPRESENTATIVE REED: And last year there was
25 a General Fund appropriation of \$1.25 million to be

1 used to pay down the debt service on the bonds that
2 would be issued to fund this particular initiative,
3 and if I'm not mistaken, I believe that same
4 appropriation is listed this year.

5 MR. HUDSON: That's correct.

6 REPRESENTATIVE REED: Will your agency issue
7 those bonds directly, or will you be working through
8 another State agency to issue those bonds?

9 MR. HUDSON: We will be working with the
10 Department of Community and Economic Development to
11 issue those bonds. PHFA will serve as technical
12 advisor on structuring the bond and overseeing
13 construction of the facilities. That's correct.

14 REPRESENTATIVE REED: Okay. Have any of
15 those bonds been issued to date?

16 MR. HUDSON: Not at this point. We are still
17 in the developmental stages of putting together a
18 request for proposal to receive from the providers,
19 and then from that point we will select what we think
20 to be the best of the submissions to do the
21 construction for the facilities for them.

22 REPRESENTATIVE REED: So then it would be
23 safe to say that the \$1.25 million from last year's
24 budget or this current fiscal year's budget has not
25 been drawn down upon, because the bonds have not been

1 issued yet.

2 MR. HUDSON: That's correct. We will be
3 drawing down on some technical assistance funding,
4 but not the entire \$1,250,000 from the last year's
5 budget. That is correct.

6 REPRESENTATIVE REED: Do you anticipate that
7 \$1.25 million lapsing into the next fiscal year, and
8 if so, is there actually a need to appropriate
9 another \$1.25 million when that money, it looks as
10 though, at least, that money may very well carry
11 over, and since it is used to pay down the general
12 debt service, it would almost be a duplicate. That
13 money could probably be spent elsewhere, and we would
14 take care of it in the upcoming years.

15 MR. HUDSON: I think we should leave that in
16 place, because when we structure the bonds, and I
17 think the demand for the facility is going to be
18 greater than what we can sell on the bond side, so we
19 want to maximize our bond sale at that point in time.

20 The way we structure the bonds would be maybe
21 to front load some of the debt service, so we would
22 anticipate using last year's appropriation in
23 addition to this year's appropriation. All that
24 would be factored in that restructured bond-issued
25 sale.

1 REPRESENTATIVE REED: Do you anticipate
2 issuing the bonds before the end of this fiscal year,
3 or would you anticipate that being in the next?

4 MR. HUDSON: I think it will be in the next
5 fiscal year.

6 REPRESENTATIVE REED: Okay. Thank you very
7 much.

8 MR. HUDSON: Sure.

9 CHAIRMAN EVANS: Thank you.
10 Representative Scott Petri.

11 REPRESENTATIVE PETRI: Thank you, Mr.
12 Chairman.

13 I want to follow up on a couple of those
14 questions from Representative Reed.

15 As I understand your testimony here today,
16 you anticipate that by the end of this fiscal year,
17 you may be about \$1.25 million short, which since we
18 have a balanced budget, I guess you would need an
19 additional supplemental appropriation approved by the
20 Legislature and the Governor.

21 MR. HUDSON: Yes.

22 REPRESENTATIVE PETRI: On the other hand, you
23 have \$1.25 million sitting in a fund called Early
24 Childhood Education Capital, which looks like it
25 probably should be lapsed, because you are not going

1 to spend it in this fiscal year.

2 Would your agency be willing to consider
3 utilizing that or asking or requesting that that
4 money be utilized, if necessary, to complete your
5 fiscal year with regard to a program that I think is
6 very important, and that is the program where we are
7 talking about the low-income housing or the Mortgage
8 Assistance Program?

9 MR. HUDSON: We can take a look at that. I
10 mean, by transferring the \$1,250,000, it does impact
11 the structuring of the Early Childhood Fund. We
12 would anticipate structuring bonds that would
13 incorporate that \$1,250,000 in the payment that
14 serves.

15 The problem that we face with the Early
16 Childhood Fund is, how long or how far out could we
17 sell bonds? Ten, fifteen years? I think reasonably,
18 we are probably looking at 15 years or less on a bond
19 sale, which means that we would have to front load
20 the bonds to pay debt service, which means that
21 \$1,250,000 would be needed to compensate for that
22 given the facility. But that is something that we
23 can take a look at.

24 REPRESENTATIVE PETRI: Yeah; I guess the
25 problem is, there is always a shortage of money and

1 then there is priorities---

2 MR. HUDSON: Yes.

3 REPRESENTATIVE PETRI: ---and at least given
4 our current financial circumstance and the
5 circumstance that's hitting a lot of our employed
6 workers, to me, the Homeowners' Emergency Mortgage
7 Assistance Program is a program that has existed for
8 a long time. It has helped a lot of people. It's
9 not free money. It's a great program, in my opinion,
10 and I think that's the direction we should go.

11 Thank you, Mr. Chairman.

12 MR. HUDSON: Thank you.

13 CHAIRMAN EVANS: Thank you, Representative.
14 Representative Mike McGeehan.

15 REPRESENTATIVE MCGEEHAN: Thank you, Mr.
16 Chairman.

17 Good morning, Mr. Hudson.

18 MR. HUDSON: Good morning.

19 REPRESENTATIVE MCGEEHAN: I want to follow up
20 on Representative Conklin's line of questioning
21 about, who are the people who are seeking assistance
22 through PHFA, their Mortgage Assistance Program? Has
23 it changed? And just a brief comment, if I may.

24 We all read about the situation in places
25 like California and Florida, and I think that the

1 situation is different here in Pennsylvania. There
2 it is being driven by flippers and investors and
3 speculators; here in Pennsylvania, I think that that
4 is not the case, and maybe you can be instructive in
5 that.

6 And are the increases, the 6-percent increase
7 in applications and obviously the increase in
8 foreclosures, due to a loss of jobs or is it
9 basically this subprime problem, these adjustable
10 rate mortgages, or is it a combination of both?

11 MR. HUDSON: The increase in applications is
12 certainly due to some of the subprime crisis. As
13 individuals credit tightens, those avenues to
14 refinance have been cut off for those individuals.
15 We are talking, you know, blue-collar working
16 families where one medical issue or illness can
17 basically send that home into foreclosure. That's
18 another factor.

19 And then, of course, layoffs, you know. As
20 you know, the program provides 24 months of
21 assistance to get back on your feet to resume their
22 mortgage payments.

23 But those are the issues that we are seeing.
24 As that credit tightens, those individuals no longer
25 have that avenue of refinance. So we are losing \$4

1 million just on payoffs alone, because individuals
2 cannot refinance into new mortgages. So that's one
3 issue.

4 The other issue that sends the individual
5 into foreclosure is the loss of the job or a medical
6 reason. You know, they have been off for a long
7 illness and have gotten behind in their mortgage
8 payment. They have now recovered and are resuming
9 their work, but they are back and delinquent in their
10 mortgage and have gotten a foreclosure notice.

11 So those are the types of individuals that we
12 are attempting to help in this program.

13 REPRESENTATIVE MCGEEHAN: It's important in
14 any debate in Harrisburg to put a face on a problem,
15 and it is important for us, and I know Representative
16 Conklin had asked for the information of the typical
17 profile of someone who is seeking assistance from
18 your agency.

19 MR. HUDSON: Yeah.

20 REPRESENTATIVE MCGEEHAN: So that would be
21 constructive for us and help for us to frame the
22 debate for the public.

23 MR. HUDSON: Yes. I will get you some income
24 brackets in terms of the applicants that we have been
25 able to help, yeah.

1 REPRESENTATIVE MCGEEHAN: Thank you very
2 much.

3 Thank you, Mr. Chairman.

4 CHAIRMAN EVANS: Thank you.

5 Representative Jake Wheatley.

6 REPRESENTATIVE WHEATLEY: Thank you, Mr.
7 Chairman.

8 And I guess I will join in the chorus of
9 those before me who were talking about the HEMAP
10 program, and before I go there, though, can I back up
11 and ask you a question around how you as an agency, I
12 know that you get a lot of Federal support for
13 programs, how you as an agency account for the homes,
14 the multi-used home, mixed-income homes, development,
15 and how that plays in the accountability of what you
16 are investing in and how that plays in the
17 communities across the Commonwealth that you invest
18 in?

19 MR. HUDSON: For the types of financings that
20 we have done?

21 REPRESENTATIVE WHEATLEY: For the tax credit
22 programs, for the mixed use, the home repair -- for
23 your various programs that you invest in or you are
24 sponsors of with developers, be they nonprofit or
25 for-profit. Do you hold them accountable to their

1 plans? How do you do those things, and how do you
2 report that back?

3 MR. HUDSON: Yes; on a tax credit, and
4 particularly if it has PHFA soft money or our hard
5 dollars where we actually have done the financing, we
6 are monitoring those projects on a monthly basis. So
7 we actually would go out and take a look, make sure
8 the upkeep is there, that they are in compliance with
9 the income levels that they said they would be
10 renting to, and they have to comply with that in
11 order to continue to receive the Federal tax credits.

12 For those where we have just tax credits
13 alone, they still have to certify the incomes of the
14 individuals that are living in those units to PHFA.
15 So all of that is reportable.

16 If their project is out of compliance, then
17 we actually send a letter to the Federal government
18 letting them know that this project is no longer in
19 compliance. That developer risks losing or
20 recapturing those credits, which has a catastrophic
21 effect on your investors in the project.

22 We have over 500 projects in our own
23 portfolio that we monitor on a monthly basis. We
24 have entire housing management staff that goes out to
25 make sure that the tenant, that the upkeep is there

1 and the units are in great shape. We actually do
2 annually an annual unit inspection, where we actually
3 go through the unit to make sure that it meets health
4 and safety standards also.

5 With regard to our homeownership programs, we
6 are looking for impact projects -- the projects that
7 actually turn around communities and have an impact
8 with blighted areas and things like that. We have
9 strict criteria with those developers which must be
10 met. When our money is going in to be a catalyst for
11 rehab, we are looking for at least 20 percent of
12 those to be affordable to the residents who live in
13 that area. So we want to maintain the ability of
14 those residents to buy in that neighborhood if they
15 so choose.

16 So we have an ongoing compliance issue there
17 also. But that is how we kind of monitor the issues
18 with regard to when our moneys are going in.

19 Now, we also oversee HUD's Section 8
20 portfolio in Pennsylvania. So we do the monitoring
21 for HUD in Pennsylvania. That's over 500 properties,
22 about 37,000 units, and we serve as a subcontractor
23 to the Department of Housing and Urban Development.

24 REPRESENTATIVE WHEATLEY: And I guess the
25 question I have is, you report federally but you do

1 not report back to the State at all, and the reason
2 why I am saying that, you are very familiar with one
3 of the areas in my district, primarily a senior
4 center that had some money from you all invested in
5 it but over the years has sat and languished, and I'm
6 trying to work through what some of the difficulties
7 are for pulling down money for reinvesting that
8 money, and I was just wondering, because State
9 officials may not know all of the necessary
10 information, do you have reporting mechanisms that
11 report to the State so that we also are kept abreast
12 of what is happening inside of these districts?

13 MR. HUDSON: If there is a problem project
14 per se in the member's district, we try to keep them
15 abreast of that. Normally, the developer is reaching
16 out to PHFA.

17 Over time, there are a number of
18 restructurings that occur. For instance, on the tax
19 credits, they have to comply with the Federal
20 guidelines for a 15-year period. At the end of that
21 15-year period, there is no reporting that needs to
22 be done to the PHFA or none to the Federal
23 government. So what we are looking to do is
24 restructure those properties and get into that
25 property an owner who has a long-term affordability

1 mission. So we are attempting to be the catalyst, if
2 you will, to make sure that that occurs.

3 REPRESENTATIVE WHEATLEY: Yeah.

4 MR. HUDSON: Sometimes we may not be involved
5 when a project has reached that point or we are not
6 aware of that, because we may not have been involved
7 with the ongoing monitoring of that particular
8 project given the nature of its financing. But, you
9 know, we try to keep the members abreast of that,
10 though.

11 REPRESENTATIVE WHEATLEY: Two quick
12 questions, because I know the Chairman is going to
13 pull me after that.

14 One is on your Renovate and Repair Loan
15 Program. Again, I know that's not a State financed
16 program; that's something that you guys do with other
17 moneys.

18 MR. HUDSON: Yes.

19 REPRESENTATIVE WHEATLEY: But I'm interested
20 to know if you have ever thought about increasing the
21 usage of this program for middle-income families to
22 be able to access it and to improve their properties
23 in some of the struggling neighborhoods. That's just
24 a suggestion; you don't necessarily have the
25 opportunity to answer right now. We can follow up

1 with you later.

2 MR. HUDSON: I would like to answer that, if
3 I can.

4 REPRESENTATIVE WHEATLEY: Okay.

5 And then a second question, and let me get it
6 out here before Mr. Chairman pulls me, is, I read an
7 interesting report that talked about the indicators
8 of people who were more likely to lose their homes,
9 and it seems to be that people who would purchase
10 homes under \$100,000 tend to be ones that are losing
11 their homes, or those who are in very low-income
12 housing that have stayed there over 15 years or so.
13 They tend to be the ones that are losing their homes
14 right about now. So as you focus in on the HEMAP,
15 are you also kind of being very strategic in how you
16 are investing in those and trying to help rectify
17 those problems?

18 So those are the two questions that I have.

19 MR. HUDSON: Absolutely.

20 First on the R and R Program, we will look at
21 expanding that program. And just backing up a little
22 bit, the reason why we created that is because we saw
23 that homeowners were the victim of predatory lenders.
24 One of the primary focuses was to prey on the elderly
25 for rehab and repair, or those individuals who didn't

1 know where to get a loan to get a new hot-water
2 heater, a new roof. So we developed that R and R to
3 do just that, and we would reach out to higher-income
4 groups. We try to design programs that are flexible
5 in nature, and we will be expanding that program,
6 hopefully, in the future.

7 We try to partner with community groups, so
8 we want a local nonprofit or for-profit entity to go
9 out and work with that homeowner. We certainly will
10 sign off on all the documents, but we need somebody
11 that that homeowner trusts to get the work done and
12 make sure the contractors are reputable also.

13 On the other front, it's an educational
14 process. We started a statewide counseling network
15 in 2003 as the result of the foreclosure study that
16 was done jointly with the Department of Banking, and
17 we today fund that counseling network to the tune of
18 about a million dollars a year.

19 We are looking at national money through the
20 NeighborWorks Program. Federally, the Feds will be
21 pushing out about \$230 million. We expect
22 Pennsylvania to get a share or a good piece of that
23 for counseling efforts.

24 We want to educate the consumer as to what to
25 look for before you get to the point where you

1 actually need HEMAP. You know, is it a problem
2 early? If you start to slip back, you see one of our
3 counselors, and we can get that loan restructured, or
4 at least get you on some sort of repayment plan
5 before you actually get that Act 91 notice in the
6 mail.

7 So we expect to be using our extensive
8 counseling network with some funding from the Federal
9 government to get the word out to educate consumers.
10 I think that is going to be one of the keys to making
11 our programs even more successful.

12 REPRESENTATIVE WHEATLEY: Thank you.

13 CHAIRMAN EVANS: Representative Mario
14 Scavello.

15 REPRESENTATIVE SCAVELLO: Thank you, Mr.
16 Chairman, and good morning, Mr. Hudson.

17 MR. HUDSON: Good morning.

18 REPRESENTATIVE SCAVELLO: Could we follow up
19 with that, because I think that is so important, the
20 helping of especially a first-time home buyer, a
21 person that has never owned a home before, that help
22 early on to let them know exactly what they have to
23 look forward to in the mortgage process and even in
24 the upkeep of a house. Is that what your program is
25 going to do?

1 MR. HUDSON: Yes; that's exactly right, and
2 we would rather have, I mean, everyone wants to hear,
3 yes, you qualify for the home, and I think that has
4 been part of the issue with the subprime crisis --
5 low documentation or no documentation loans, no
6 income verification -- because they wanted to tell
7 someone, yes, you can afford this property.

8 What our workshops and our counseling
9 agencies are doing is actually helping train that
10 homeowner what to expect. If the roof goes bad and
11 needs repaired, the hot-water heater goes bad, these
12 are expenses that you need to plan for. We have
13 increased the minimum liquid cash that a homeowner
14 can have in reserve up to, I think we are over about
15 \$10,000 now to get a home. So they can have that
16 money for an emergency, because it's that one
17 emergency that slips the homeowners into foreclosure.

18 But more importantly, what to expect from
19 homeownership. You know, there is upkeep involved;
20 there is escrow; there's taxes. If there is a tax
21 increase, your mortgage payment will go up, even
22 though you say you have a fixed-rate mortgage. But
23 that's what we want to educate them about.

24 And then it's not just to get a PHFA loan,
25 because when most homeowners start to go shopping for

1 loans, they are going to see a lot of different rates
2 and a lot of options thrown at them. What we want
3 them to do is just get a second opinion: Is this the
4 right loan? If it's a 4-percent mortgage rate, that
5 sounds too good to be true; get a second opinion. So
6 that's what we are trying to do.

7 REPRESENTATIVE SCAVELLO: I think that is so
8 important. In Monroe County where I am from, that's
9 been our biggest problem. You know, people will see
10 an ad in New York City, "Why rent for \$900? You can
11 come up here to the Poconos and own a home," but they
12 don't look at the other costs involved in that
13 homeownership. It's not just the \$900 mortgage that
14 can go up---

15 MR. HUDSON: That's right.

16 REPRESENTATIVE SCAVELLO: ---property taxes,
17 condominium fees, or whatever else, community fees,
18 the water, sewer, that they never paid before that
19 they were not prepared to.

20 MR. HUDSON: And the single issue and the
21 other issue is that their credit may not be quite
22 ready to take on homeownership. They already have
23 some bills, outstanding bills; then we tell that
24 homeowner or potential homeowner, you should wait
25 about a year or so until you get these debts paid

1 down, because this is what you are looking at from a
2 cost standpoint.

3 REPRESENTATIVE SCAVELLO: I think that is so
4 important.

5 Can I just review the HEMAP for a second?
6 I'm 60- to 90-days in arrears; what do I do? Put me
7 through the whole process.

8 MR. HUDSON: Well, let's say you have gotten
9 the Act 91 notice from the lender---

10 REPRESENTATIVE SCAVELLO: Okay.

11 MR. HUDSON: ---which is a foreclosure
12 notice, and then part of that notice is to direct you
13 to go to one of our counseling agencies.

14 You have 30 days to go to see one of those
15 counseling agencies. They will take an application
16 on you -- what are the circumstances; what happened
17 -- and basically review that app and send it into the
18 agency. Our underwriters on staff will review it,
19 will get in contact with the homeowner and, in
20 addition, follow-up information, and make a
21 determination.

22 The HEMAP program will provide 24 months of
23 assistance if you are in that situation through no
24 fault of your own, and this is one of the reasons why
25 we are not able to help a lot of subprime victims, if

1 you will, because one of the criteria of the program
2 is that you have to show the ability to resume your
3 mortgage payments within that 24-month period.

4 If your application is approved, we will
5 process it and make either all or a portion of your
6 mortgage payment, either just an arrears loan or it
7 could be in a continuing loan, which means that we
8 will help make a portion of that homeowner's mortgage
9 payment for up to 24 months if it's needed.

10 REPRESENTATIVE SCAVELLO: That approval
11 process takes how long?

12 MR. HUDSON: We're probably looking at 30
13 days to do that.

14 REPRESENTATIVE SCAVELLO: Thirty days. Okay.
15 Thank you.

16 CHAIRMAN EVANS: Thank you.

17 Representative Cherelle Parker.

18 REPRESENTATIVE PARKER: Thank you, Mr.
19 Chairman.

20 Good morning, Mr. Hudson, and thank you for
21 being here.

22 MR. HUDSON: Good morning.

23 REPRESENTATIVE PARKER: I want to go back to
24 the issue of the number of foreclosures and the
25 increase in the number of applications that PHFA has

1 received.

2 We do know that data suggests that
3 foreclosures in the United States increased to about
4 42 percent, and while the number of applications you
5 received has increased, Pennsylvania's number in
6 terms of foreclosure filings overall decreased,
7 according to the national average, by about 11
8 percent, and I believe that is because of the work
9 done by PHFA.

10 So when I think about your requested
11 appropriation and that which is proposed, I wanted to
12 know if you could give us just a brief summary of
13 what happened to the REAL Program and the HERO
14 Program, that I know my constituents and I have heard
15 many of my colleagues talk about how effective these
16 programs have been, not just in urban regions but
17 also in rural Pennsylvania and other portions of the
18 Commonwealth.

19 That's the first question, if you could just
20 comment.

21 MR. HUDSON: Well, the HERO and the REAL
22 programs, as you know, we created to help those
23 homeowners who were in subprime mortgages. From a
24 statistics standpoint, we know that there are
25 securitized subprime loans, and we actually were

1 working with City Group, who prepared Pennsylvania's
2 portfolio of subprime loans that were securitized.
3 Over 200,000 subprime loans were securitized in
4 Pennsylvania. About 15, 16 percent of those are
5 delinquent.

6 Of that 200,000, 75,000 were subprime ARMs,
7 adjustable-rate mortgages. Of the 75,000, about 20
8 percent were delinquent. So we had developed HERO
9 and REAL to deal with those individuals in those
10 mortgages to get them out of those mortgages and into
11 30-year fixed-rate mortgages.

12 The REAL Program we originate through about
13 80 lenders throughout the Commonwealth. They use our
14 guidelines, originate the product, and then we buy
15 the loan from those lenders, and we will do up to
16 \$120,000 household income, 100 percent loan-to-value
17 of the property, which I don't think there is not a
18 program that exists to that measure to date.

19 We are not looking solely at the credit
20 score. We realize that the credit score may have
21 deteriorated. That is just one factor, but that is
22 not the determining factor. We want to see, you
23 know, how this individual has managed their credit
24 over a time period.

25 So the HERO is somewhat for a homeowner who

1 is only one, no more than two months' delinquent.
2 They are just beginning to slip in their mortgage
3 payment for REAL.

4 On HERO, they are truly upside-down in their
5 mortgage. They actually owe the lender more than the
6 property is valued, and we have got cases where the
7 lenders are in different States. We have to
8 negotiate one on one with those lenders to basically
9 take a write-down of that loan.

10 On a HERO loan, we are looking for that loan
11 to be assigned to PHFA. So we're negotiating on the
12 homeowner's behalf with the lender or the servicer,
13 as the case may be, to reduce the mortgage amount to
14 what that homeowner can afford, and we are
15 underwriting that homeowner to the net income, so
16 what they can afford on the mortgage side.

17 If HEMAP is not funded entirely, HERO and
18 REAL will continue, because we are actually funding
19 those through the sale of taxable bonds. So that
20 does not impact HEMAP.

21 Where HEMAP has been able to help us with the
22 HERO and REAL is to provide some bridge lending for
23 those homeowners who have been threatened with
24 foreclosure, to give us time to get help to them.
25 And we don't know how many will be caught in that for

1 lack of the bridge-loan financing at this point in
2 time, but we are using HEMAP creatively to be able to
3 help HERO and REAL applicants. But the funding
4 source is different, because we are using taxable
5 bonds to fund both the REAL and HERO programs.

6 REPRESENTATIVE PARKER: My final question,
7 Mr. Hudson, is in regard to the six-bill package that
8 the Governor and members of the Senate and this body
9 have introduced to help to address the issue of
10 subprime lending.

11 You know, prior before this issue of
12 predatory lending became popular in the country, you
13 know, we who were in the city of Philadelphia were
14 talking about this issue in 1995 and '96---

15 MR. HUDSON: Right.

16 REPRESENTATIVE PARKER: ---before people
17 realized that there were unscrupulous lenders who
18 were lending to people without regard to their
19 ability to repay the loan, balloon payments, the
20 adjustable-rate mortgages, with little to no research
21 and/or paperwork associated with it.

22 So I wanted to know if you could just comment
23 on the six-bill package. You know, has PHFA reviewed
24 it? Do you think this will help? Because aside from
25 us being responsive to individuals who find

1 themselves having been victims of receiving a
2 predatory loan, is this the preventive measure that
3 PHFA is thinking will help to reduce the number of
4 Pennsylvanians who are seeking assistance from your
5 agency?

6 MR. HUDSON: Yes, I think so, and we do
7 support the package. We had worked closely with the
8 Department of Banking and the administration on that
9 particular package of bills.

10 One that in particular affects PHFA is the
11 interest rate on the HEMAP loans. Of course, we
12 think that should be reflective of the interest
13 environment. By law, it's set at 9 percent. In
14 today's market, that would be around 7 percent, and
15 we think that's a good move, because we want to offer
16 those homeowners who are receiving HEMAP rates that
17 are reflective of the current interest-rate
18 environment.

19 The other significant piece is to require
20 PHFA to do a foreclosure study and provide that to
21 the Legislature, which we support. The last study we
22 did was in 2003, and it was from that study that we
23 created our statewide counseling network, which we
24 think has been very beneficial.

25 So we do support the package of bills, and we

1 think it is another measure to help our homeowners to
2 prevent what has been happening from occurring to
3 this magnitude again, definitely.

4 REPRESENTATIVE PARKER: Thank you, Mr.
5 Chairman.

6 CHAIRMAN EVANS: Thank you.

7 I would like to then ask one last follow-up
8 question. I thought that Representative Parker did a
9 very good job in talking about kind of the state of
10 things and the six-bill package that the Governor
11 talked about.

12 Are there any other kinds of additional
13 things in addition to, and you talked about the
14 six-package of bills, you talked about the HEMAP
15 program, you talked about your HERO and your REAL
16 programs, that should be brought to the General
17 Assembly's attention to help this crisis, either
18 subprime, foreclosure, and obviously on the national
19 level? You know, you got it all in the Presidential
20 debate.

21 Is there anything else that you think could
22 be brought to our attention, things that we could do.

23 MR. HUDSON: Well, as I mentioned earlier, we
24 are seeking some national funding from NeighborWorks.
25 Over the next month or so, you will see a number of

1 commercials, marketing, that will be telling
2 homeowners where to go for help.

3 About a year or so ago, as we were creating
4 REAL and HERO, we were seeking some sort of support
5 from the Legislature in terms of lost reserve. All
6 of these loans will have some losses; we just don't
7 know what those losses will be.

8 CHAIRMAN EVANS: What exactly are you
9 requesting? What kind of number are you requesting?

10 MR. HUDSON: At that point, it was \$25
11 million that we were talking about for a loss reserve
12 to do a pool of loans to refinance individuals. PHFA
13 has set aside \$11 million towards this loss reserve
14 funding.

15 We are just starting to lend money under the
16 REAL and HERO. I think we have made commitments for
17 about \$6 or \$7 million. As the marketing hits the
18 airwaves, I think our applications and our volume
19 will pick up.

20 I will be funding both REAL and HERO through
21 the sale of taxable bonds. My negotiations occur
22 with the rating services, both Moody's and S&P, and
23 it would be after those negotiations that they would
24 determine what type of loss reserves we need to have
25 on hand for these funds that we would be setting up

1 for REAL and HERO.

2 CHAIRMAN EVANS: And is that where you talk
3 about where the \$25 million would come in?

4 MR. HUDSON: Yes; yes.

5 CHAIRMAN EVANS: It would be that reserve?

6 MR. HUDSON: So that would be the help that
7 we would probably be seeking from the Legislature to
8 shore up the funding of those programs.

9 One of the components that we are offering to
10 the homeowners, too, because these homeowners had
11 been in trouble, a lot of them mortgage insurers have
12 exited the business now, so mortgage insurance is
13 hard to get.

14 PHFA has an insurance entity risk retention
15 that we are providing the A-1 pricing to these
16 homeowners so that we can get them refinanced also.
17 But that is another risk that we are willing to take
18 on.

19 So I would say that we will want to come back
20 and maybe seek some assistance on the loss reserve
21 side as we start to help these individuals.

22 CHAIRMAN EVANS: Okay. Sure thing.

23 I would like to thank you, Mr. Hudson, for
24 all your years of leadership at PHFA. I think,
25 personally, you have done an excellent job. You have

1 been consistent, always available to all members of
2 this General Assembly, and I thank you for what you
3 have done in terms of presenting your point of view
4 to this committee.

5 MR. HUDSON: Thank you, Mr. Chairman, and
6 thank you, members of the committee, also.

7 CHAIRMAN EVANS: We are absolutely ahead of
8 schedule. That comes with good leadership. I just
9 put that little nod in there.

10 We will recess until 10 o'clock. The
11 Department of Aging will come before us at 10
12 o'clock.

13 I would like to thank Mr. Hudson again and
14 thank the members of the committee. We will be back
15 here at 10 a.m.

16 MR. HUDSON: Thank you.

17 CHAIRMAN EVANS: One other announcement I
18 should have made, and I apologize, the Chairperson of
19 the Aging Committee will be sitting through with us
20 in this process, Representative Phyllis Mundy.

21 Phyllis, who is your counterpart?

22 REPRESENTATIVE MUNDY: Tim Hennessey.

23 CHAIRMAN EVANS: Tim Hennessy.

24 Representative Phyllis Mundy, who is the
25 Chairperson, and Tim Hennessey, who is the Republican

1 Chairman, they will be sitting through this process
2 with us.

3 So again, thank you very much.

4

5 (The hearing concluded at 9:38 a.m.)

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I hereby certify that the proceedings and evidence are contained fully and accurately in the notes taken by me on the within proceedings and that this is a correct transcript of the same.

Jean M. Davis, Reporter
Notary Public