

THE LIED RESEARCH REPORT

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How Effective Is Nevada's \$194 Million "HARDEST HIT" Fund?

To help struggling homeowners keep their homes, over the past two years, the Obama administration has created several programs, including the Home Affordable Modification Program (HAMP) and the federal Hardest Hit Program that targets the most economically stressed states.¹ The Hardest Hit Program is intended to supplement the federal HAMP. It could even be viewed as a stand-alone program for homeowners who do not meet HAMP underwriting standards.

Nevada is one of the first eligible states to receive the Hardest Hit fund. To implement the program, in September 2010, the Obama administration approved additional money for the Nevada Affordable Housing Assistance Corporation's (NAHAC) plan to help struggling homeowners. The *Las Vegas Sun* headline on September 30 read "Nevada to get \$57 million to help avoid foreclosure." With this additional \$57 million, the Obama administration has now approved a total of \$194 million in the Hardest Hit fund for Nevada. However, as of this writing, the NAHAC office is: (1) not fully staffed, (2) not open for business, and (3) not able to take homeowner applications.

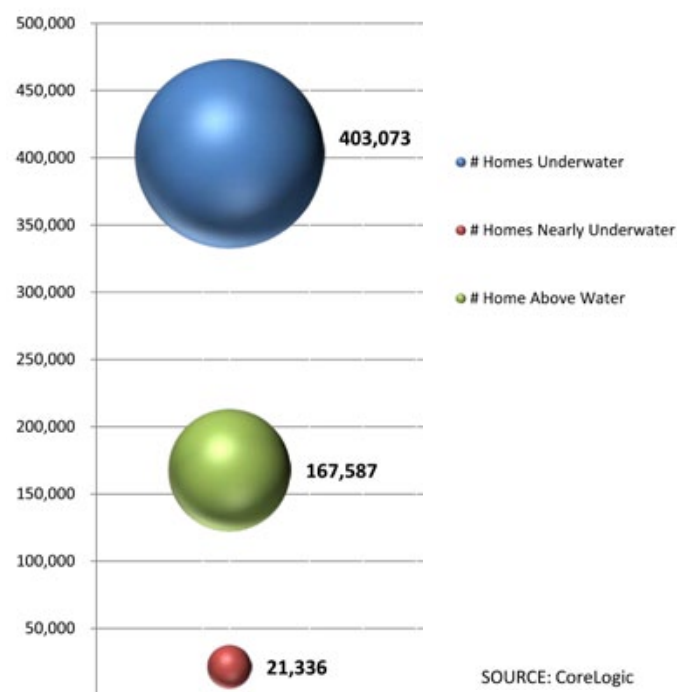
In this issue of the *Lied Institute Research Report*, we will analyze the effectiveness of the Hardest Hit Program for Nevada. The HAMP's effectiveness will be assessed in a future issue of the report.

NAHAC Would Help Only a Small Portion of Struggling Homeowners

The Hardest Hit Program—which is expected to last up to 24 months—was intended to help a total of only 5,085 Nevada families; however, each month thousands of

homeowners in Nevada enter the "struggling homeowner" category. According to RealtyTrac, in the month of July 2010 alone, a total of 13,727 Nevada properties received a foreclosure filing; 6,053 notices of default were filed; and 3,478 homes were repossessed. This means that July 2010's total of struggling homeowners of 23,258 was over 4½ times the maximum number of families that can be helped under the program. Further, when applying the maximum principal relief amount of \$50,000 per household, the Hardest Hit Program's \$194 million will only cover 3,880 homeowners, which would help only 1-out-of-5 of July's families. Today, the NAHAC office neither is open for business nor is fully staffed. There is little hope for

Negative Home Equity in Nevada (Homes with Mortgage Debt)



¹ The Hardest Hit Program is administered through the Housing Finance Agency (HFA) Innovation Fund. See www.MakingHomeAffordable.gov.

July's wave of struggling homeowners. Perhaps, August, September, October, or November's homeowners can look for help.

A recent August 2010 CoreLogic report shows that Nevada has nearly 600,000 homes with mortgage debt; of those households 68%, or 403,073, have negative equity. Nevada is the worst state in the nation with 65% of homes "upside-down." The report indicates that the average home value in Nevada is \$176,000 with an average mortgage amount of \$212,000, thus, an average negative equity of \$36,000. The Corelogic report also shows that Nevada has a total residential property value of \$104 billion with \$125 billion in outstanding mortgage debt. This means a statewide loan-to-value ratio (LTV) of 120%. In other words, Nevada is \$21 billion "underwater." Unfortunately, the Hardest Hit Program's 5,085 families represent only 1.26% of the 403,074 households with "negative equity." Further, although \$194 million is, indeed, a vast sum of money allocated to help struggling Nevadans, it represents less than 1% of the \$21 billion.

Description of the NAHAC Programs

A brief summary of NAHAC's Hardest Hit Programs is provided below. For complete details, please go to www.NAHAC.org. In short, the NAHAC plan has two parts:

- #1: Short-Sale Acceleration Program; and,
- #2: Mortgage Reduction Program (for both first and second mortgages).

Program #1: Short-Sale Acceleration Program

To qualify for the Short-Sale Acceleration Program:

- The property must be an owner-occupied home, excluding investment or rental properties.
- The homeowner must be unemployed.
- The homeowner must have a bona-fide sales contract to sell his/her home.
- The homeowner and the lender must have an existing short-sale agreement in place.

The maximum "short-sale-accelerated-relief" amount is \$8,025. In addition, the homeowner/family must commit "to living in a rental property from the eligible list of participating properties" for 6 months or longer. In other words, in exchange for an \$8,025 incentive to their lender and giving up his/her home, a homeowner must commit to rent from a state of Nevada list of participating properties.

Program #2: Mortgage-Reduction Program (1st and 2nd Mortgages)

NAHAC's Mortgage Reduction Program is briefly summarized below:

PART A): For first mortgages, there is a maximum mortgage principal reduction of \$50,000 per household (\$25,000 from NAHAC and \$25,000 from the lender) for homeowners who meet at least the following initial conditions:

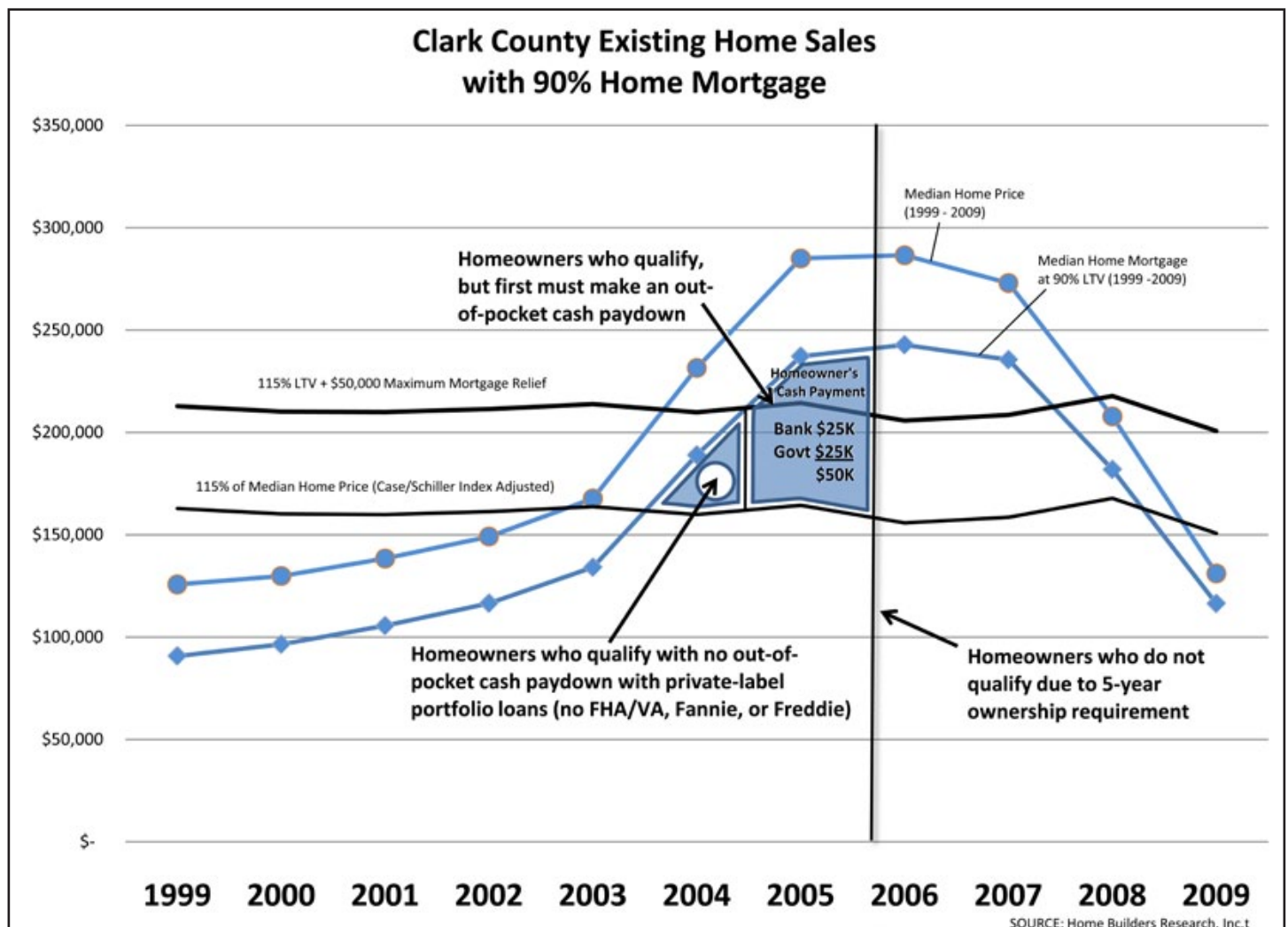
- The property must be an owner-occupied home, excluding investment or rental properties.
- Borrower is not unemployed, but underemployed.
- The homes were purchased AFTER January 01, 2005 (or a minimum of 5 years in same dwelling).
- Current household income is not greater than 120% of the area median income, \$64,200 in 2009.
- Borrower did not cash out in the past 5 years for personal property or personal use (must be verified).
- Borrower cannot be delinquent on the mortgage for more than six months.
- After the revised mortgage, the monthly loan service, PITI (includes principal, interest, taxes, insurance, and association fee), must be reduced to 31% or less of the homeowner's gross income.
- Mortgages secured by FHA/VA, Fannie Mae, or Freddie Mac, 65% of all loans in Nevada, are not eligible.

Homeowners who meet the above criteria, also have to satisfy the following additional conditions:

- The final revised principal loan balance must not exceed 115% of the home value (based on a current appraisal).
- The home loan is less than \$427,185 for Clark County, \$431,190 for Reno/Sparks, and \$437,088 for rural Nevada areas.

- The Hardest Hit Program requires a 20% per year “recapture” of the forgiveness amount if the home is sold before five years after the receipt of the principal forgiveness.

PART B): This program is aimed at eliminating the second mortgage impediment to qualify for the program under Part A. Maximum amount of relief is \$41,250. A homeowner may receive a second mortgage reduction or elimination conditioned upon the lender eliminating 60% (\$24,750) of the second loan and the NAHAC funds eliminating the other 40% (\$16,500). Under this plan, lenders are expected to provide full lien releases and waive their right to pursue a deficiency judgment against the homeowner in the future. **Part A** qualifications above apply: No FHA/VA, Fannie Mae, or Freddie Mac.



Analysis

To perform a relatively simple analysis, we use the summary of the NAHAC's Hardest Hit standards outlined above and 1999 to 2009 median home prices in Clark County, Nevada, from Dennis Smith's *Home Builders Research, Inc.* We also make the following assumptions:

- A median home-price buyer mortgages 90% of the home value at the time of purchase.
- Mortgage principal reductions are based on a 30-year amortization at a 5.5% fixed interest rate.
- The median home prices for 1999 to 2009 are adjusted by the Case-Shiller Home Price Index to obtain a 115% maximum LTV for each year.
- An additional \$50,000 of debt forgiveness is added to the 115% maximum LTV (e.g., \$25,000 from NAHAC's Hardest Hit fund and \$25,000 from the participating lender) to get a maximum total "median mortgage" amount for mortgage relief.
- Finally, this analysis assumes that if a homeowner qualifies on all Hardest Hit Fund criteria, but his/her existing mortgage is greater than \$50,000 more than 115% of the current appraised value of the house (e.g., the \$200,770 baseline), the borrower will reject the Hardest Hit fund of \$50,000 principal reduction on the basis that he/she is not willing to put more of his/her own cash into the underwater home.

The results of the analysis are depicted on the graph on page 3 and can be summarized in three groups:

- Under the Hardest Hit Program homeowners who have not lived in the same owner-occupied dwelling for five years (e.g., after 2005) do not qualify for the NAHAC program. This restriction alone eliminates the preponderance of hardest hit homeowners in the Las Vegas area who are upside-down on their mortgage.
- Due to the 115% maximum LTV, some homeowners would have to pay anywhere between \$22,000 and \$36,000 to receive a potential \$50,000 maximum Hardest Hit fund benefit.
- A small group of homeowners, mostly those who purchase a home by the end of 2004, benefit from the program.²

Conclusion

In essence, as currently outlined, the Hardest Hit Program will most likely qualify homeowners who are already at or below a 115% LTV or less. In order to help the hardest-hit homeowners in Southern Nevada, the Hardest Hit Program would need to increase the maximum LTV from 115% to nearly 150% and, perhaps, include FHA/VA, Fannie May and Freddie Mac loans.

² A quick rule of thumb for homeowners to determine the feasibility of obtaining mortgage relief from the Hardest Hit Program is to check with www.Zillow.com to see if their home value has changed/dropped more than 22%; if it has, they most likely will not meet the 115% LTV qualification. However, if homeowners' current LTV is 150% or less, they may pass the 115% LTV test and receive the **maximum** use of the program's \$50,000. If yes, then they can go to www.MakingHomeAffordable.gov, enter the home's address to see if the home is **not** backed by Fannie, Freddie, FHA, or VA. If yes, then they can go to www.NAHAC.org to test the remaining qualifications. Finally, once the NAHAC office opens, homeowners can apply for mortgage relief.

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