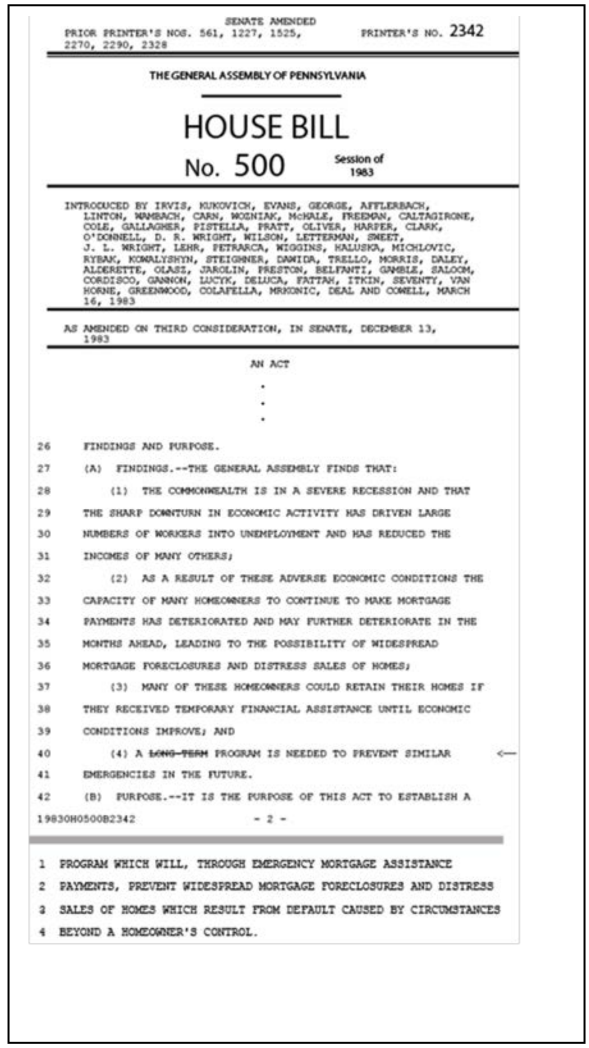
## I. Introduction

In 1983, the General Assembly of the Commonwealth of Pennsylvania took official notice that the Commonwealth was "in a severe recession and that the sharp downturn in economic activity has driven large numbers of workers into unemployment and has reduced the incomes of many others." The assembly responded to this crisis by creating the Homeowners' Emergency Mortgage Assistance Program (hereafter referred to as HEMAP), which was intended to "prevent widespread mortgage foreclosures and distress sales of homes which result from default caused by circumstances beyond a homeowner's control."[1] At that time, the unemployment rate of the Commonwealth rose to 12.7%. Areas most adversely impacted (such as Cambria County, home of Johnstown) experienced unemployment rates nearing 20%.



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THE GENERAL ASSEMBLY OF PENNSYLVANIA

HOUSE BILL
No. 500 Session of 1983

INTRODUCED BY IRVIS, KUKOVICH, EVANS, GEORGE, AFFLERBACH, LINTON, WAMBACH, CARN, WOZNIAK, McHALE, FREEMAN, CALTAGIRONE, COLE, GALLAGHER, PISTELLA, PRATT, OLIVER, HARPER, CLARK, O'DONNELL, D. R. WRIGHT, WILSON, LETTERMAN, SWEET, J. L. WRIGHT, LEHR, PETRARCA, WIGGINS, HALUSKA, MICHLOVIC, RYBAK, KOWALYSHYN, STEIGHNER, DAWIDA, TRELLO, MORRIS, DALEY, ALDERETTE, OLASZ, JAROLIN, PRESTON, BELFANTI, GAMBLE, SALOOM, CORDISCO, GANNON, LUCYK, DELUCA, FATTAH, ITKIN, SEVENTY, VAN HORNE, GREENWOOD, COLAFELLA, MRKONIC, DEAL AND COWELL, MARCH 16, 1983

AS AMENDED ON THIRD CONSIDERATION, IN SENATE, DECEMBER 13, 1983

AN ACT

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FINDINGS AND PURPOSE.
(A) FINDINGS.--THE GENERAL ASSEMBLY FINDS THAT:
(1) THE COMMONWEALTH IS IN A SEVERE RECESSION AND THAT THE SHARP DOWNTURN IN ECONOMIC ACTIVITY HAS DRIVEN LARGE NUMBERS OF WORKERS INTO UNEMPLOYMENT AND HAS REDUCED THE INCOMES OF MANY OTHERS;
(2) AS A RESULT OF THESE ADVERSE ECONOMIC CONDITIONS THE CAPACITY OF MANY HOMEOWNERS TO CONTINUE TO MAKE MORTGAGE PAYMENTS HAS DETERIORATED AND MAY FURTHER DETERIORATE IN THE MONTHS AHEAD, LEADING TO THE POSSIBILITY OF WIDESPREAD MORTGAGE FORECLOSURES AND DISTRESS SALES OF HOMES;
(3) MANY OF THESE HOMEOWNERS COULD RETAIN THEIR HOMES IF THEY RECEIVED TEMPORARY FINANCIAL ASSISTANCE UNTIL ECONOMIC CONDITIONS IMPROVE; AND
(4) A ~~LONG-TERM~~ PROGRAM IS NEEDED TO PREVENT SIMILAR EMERGENCIES IN THE FUTURE.
(B) PURPOSE.--IT IS THE PURPOSE OF THIS ACT TO ESTABLISH A

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PROGRAM WHICH WILL, THROUGH EMERGENCY MORTGAGE ASSISTANCE PAYMENTS, PREVENT WIDESPREAD MORTGAGE FORECLOSURES AND DISTRESS SALES OF HOMES WHICH RESULT FROM DEFAULT CAUSED BY CIRCUMSTANCES BEYOND A HOMEOWNER'S CONTROL.

**Figure 1: Excerpt from State House Bill 500 (1983) Creating HEMAP**

In general, HEMAP required lenders/servicers to give notice to homeowners prior to filing a foreclosure action (via the Act 91 Notice). Upon receipt of this notice, homeowners had the right to apply for assistance to the Pennsylvania Housing Finance Agency (PHFA) through one of the PHFA-approved housing counseling agencies. While an application was pending, lenders/servicers could not move forward with the foreclosure action. Upon receipt of an application, PHFA staff reviewed the application for eligibility on these grounds: the homeowner had to be a Pennsylvania resident who owned and occupied the home in foreclosure, delinquency must have lasted at least 60 days, the mortgage must not have been FHA-insured, the hardship triggering the delinquency could not have been of the homeowners' own making and the homeowner had to show reasonable prospects of resuming payment when the HEMAP assistance would end.[2] HEMAP assistance could be either continuing (in the form of a small monthly amount to compensate for loss of income) or in a single sum; in either instance, HEMAP assistance was a loan for which the homeowner had a repayment obligation, and the PHFA received an interest in the home until the loan was paid in full.[3] Data reported by the Federal Reserve Bank of New York demonstrate that from 1983 through 2009, 23.6% (43,147) of all 183,040 applicants to the HEMAP program were approved.[4]

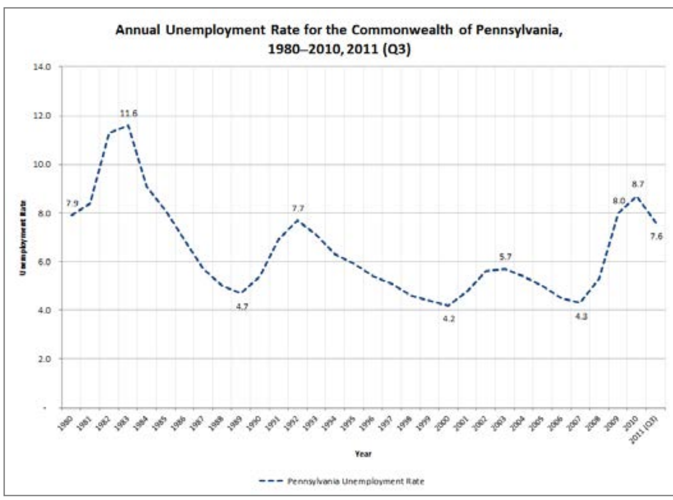
In his July 2009 testimony before the Financial Services Committee of the U.S. House of Representatives, Executive Director Brian Hudson of PHFA testified that HEMAP saved more than 42,700 families from foreclosure; HEMAP loans totaling $442 million had been originated as of that date. He testified that more than 20,000 loans had been repaid in full, leading to a return of principal and interest of more than $246 million.[5]

Mr. Hudson also testified before the Appropriations Committee of the Senate of Pennsylvania, noting that since HEMAP's inception, state appropriations totaling $233 million along with $15 million in unexpended funds from

Temporary Assistance for Needy Families (TANF) were used to finance HEMAP.[6] Annual appropriations between 1983 and 1986 of approximately $25 million per year capitalized the HEMAP program. Between 2008 and 2010, the Commonwealth's appropriated amount was a combined $33 million.[7] PHFA also used loan repayments to make additional loans to Pennsylvanians facing foreclosure due to circumstances beyond homeowner control.

Pennsylvania's HEMAP program is widely regarded as one of the very few effective tools to prevent foreclosure. In 2007, HEMAP was a finalist for the Innovations in American Government Award by the Ash Center for Democratic Governance and Innovation at Harvard University's Kennedy School of Government.[8] More recently, its efficacy was recognized in articles published by Moody's Investors Service and the Federal Reserve Bank of New York. The Federal Reserve Bank of New York points out that "Pennsylvania's experience with the Homeowners' Emergency Mortgage Assistance Program suggests that lending by the government to a carefully screened group of unemployed borrowers can be a successful strategy to reduce foreclosures"(Orr et al., p. 9).

On May 28, 2011, at a time not unlike that when HEMAP was created (with high unemployment, loss of income[9] and rising foreclosures[10]—see Figure 2), PHFA gave notice that the Commonwealth's appropriation of $2 million left "insufficient money available in the Homeowners' Emergency Mortgage Assistance Program (Fund) to accept new applications for emergency mortgage assistance" (PA Bulletin 41 Pa.B. 2789). Thus HEMAP was ended, and homeowners in Pennsylvania lost its assistance. Aside from the financial assistance that HEMAP provided, it offered procedural protections and funded housing counseling to help homeowners complete their HEMAP applications; these benefits were also curtailed.[11]




Sources: (1) Pennsylvania Department of Labor and Industry, Center for Workforce Information and Analysis & (2) Mortgage Bankers Association, National Delinquency Survey.

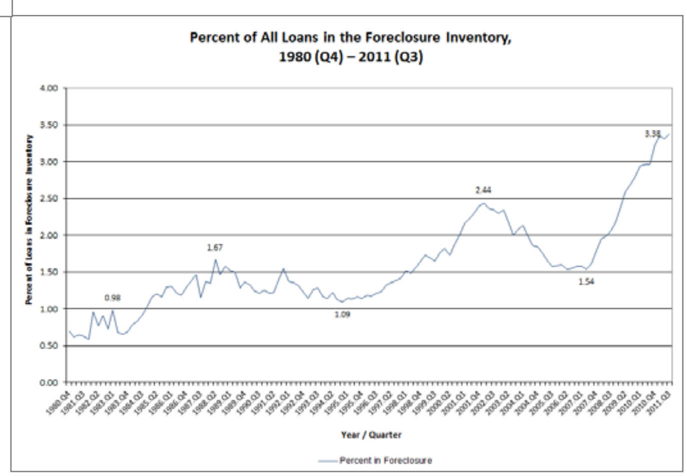



**Figure 2: Pennsylvania Unemployment Rate & Foreclosure Inventory, 1980–2011**

## II. Analysis

What would have happened differently in Pennsylvania if the state had not offered HEMAP? To answer this question, we can draw upon two data sources. First, the Mortgage Bankers Association National Delinquency Surveys (MBA NDS) for 2008 through 2010 provide state-level foreclosure rates for each state and for the United States. From these data, we can estimate the size of the foreclosure inventory. Second, PHFA's administrative data provide records of the number of applications and the disposition of those applications (whether they were approved, denied, withdrawn, and so on). By adding back the number of approved HEMAP applications to the MBA NDS data, we can estimate the foreclosure inventory that would have existed without HEMAP.

Table 1 shows the annual impact of the HEMAP program on the inventory of foreclosures in Pennsylvania. From 2008 through 2010, according to the MBA NDS, both the foreclosure rate and the number of loans in foreclosure status rose substantially (from 2.17% to 3.24% and from 33,895 to 49,687 respectively). So too did the number of approved HEMAP applications (from 1,713 to 2,300). Based solely on approved HEMAP applicants, approximately 5% of each year's potential inventory of foreclosed properties did not reach the inventory because of HEMAP assistance.

We can use these data to recalculate the state's foreclosure rate as it would have been without HEMAP assistance. In 2008, the rate would have been 2.28% rather than 2.17%; in 2010, the rate would have been 3.39% rather than 3.24%.

| | Q4 2008 | Q4 2009 | Q4 2010 |
|---|---|---|---|
| **Total Loans** | 1,561,961 | 1,552,186 | 1,533,541 |
| % in Fcl Inventory | 2.17% | 2.81% | 3.24% |
| Est # in Fcl Inventory | 33,895 | 43,616 | 49,687 |
| | | | |
| **Approved HEMAP - SAVED** | 1,713 | 2,149 | 2,300 |
| % of loans saved from Fcl inventory | 5.05% | 4.93% | 4.63% |
| | | | |
| **Total Loans** | 1,561,961 | 1,552,186 | 1,533,541 |
| Adjusted Fcl (Saved) | 35,608 | 45,765 | 51,987 |
| Adjusted Fcl Rate (Saved) | 2.28% | 2.95% | 3.39% |

**Table 1: Estimated Impact of HEMAP on Pennsylvania Foreclosure Activity**

The MBA NDS data allow for a ranking of states by foreclosure rate. For the years 2008 through 2010, the U.S. foreclosure rate rose from 3.30% to 4.63%. Over that period, Florida consistently ranked as the state with the highest foreclosure rate in the U.S., with rates rising from 8.95% to 14.18%. Pennsylvania's foreclosure rate rose from 2.17% to 3.24% between 2008 and 2010 but remained among those states at or below the average.[12] Were it not for HEMAP, not only would Pennsylvania's annual foreclosure rates have been higher, but our rank among states would have been several positions higher and thus less advantageous.

| | 2008 | | 2009 | | 2010 | |
|---|---|---|---|---|---|---|
| | Rate | Rank | Rate | Rank | Rate | Rank |
| **MBAA; US Rate** | 3.30% | x | 4.58% | x | 4.63% | x |
| **MBAA - Most Troubled State; Florida** | 8.95% | 1 | 13.44% | 1 | 14.18% | 1 |
| **MBAA; Pennsylvania** | 2.17% | 25 | 2.81% | 31 | 3.24% | 28 |
| **Saved** | 2.28% | 21 | 2.95% | 29 | 3.39% | 25 |

**Table 2: Pennsylvania Foreclosure Rank with and without HEMAP**

In the 2007 Economic Report to the President by the Joint Economic Committee of the United States Congress (JEC), the JEC reports based on a variety of studies that the total estimated financial impact per foreclosure is $77,395.[13] Of that amount, $50,000 (64.6%) is borne by the lenders, $19,227 (24.7%) by the local government where the collateral property is located, $7,200 (9.2%) by the homeowner and $1,508 (1.9%) by neighbors in close proximity to the foreclosed property.[14] In light of these data, they argue, "The high costs of foreclosures—up to $80,000 for all stakeholders combined—present a strong incentive to prevent them" (JEC, p. 41).

| Financial Impact by Stakeholder | Q4 2008 | Q4 2009 | Q4 2010 |
|---|---|---|---|
| Impact Attributed to Homeowners | $ 12,333,600 | $ 15,472,800 | $ 16,560,000 |
| Impact Attributed to Lender | $ 85,650,000 | $107,450,000 | $115,000,000 |
| Impact Attributed to Local Government | $ 32,935,851 | $ 41,318,823 | $ 44,222,100 |
| Impact Attributed to Neighbor's Home Value | $ 2,583,204 | $ 3,240,692 | $ 3,468,400 |
| **Total Impact** | **$133,502,655** | **$167,482,315** | **$179,250,500** |

**Table 3: Financial Impact of HEMAP by Stakeholder Category**

If we include these estimates of the financial impact of the foreclosures avoided due to HEMAP, the program's annual impact ranged from $133.5 million in 2008 to $179.3 million in 2010, and the three-year impact exceeded $480 million. Using the JEC estimates of financial impact, lenders/servicers alone were spared $308.1 million in costs between 2008 and 2010 because of HEMAP; homeowners were spared $44.4 million in costs, local governments were spared $118.5 million and neighbors of those in foreclosure, $9.3 million.

Tables 4 and 5[15] show the distribution of HEMAP approvals for counties, state House districts and Senate districts. As the data show, every one of these areas contained homeowners who received the benefits of the HEMAP program. The median county had 48 approved applications; one county, Cameron, had one approved application. Philadelphia County had 1,255 applications approved over that three-year period. Other counties with substantial numbers of approvals include Allegheny (441), Montgomery (292), Delaware (280), Bucks (218), Monroe (202) and York (193). Financial impacts by county range from $77,375 to $97,105,626. Detailed tables showing each county, state House district and state Senate district are available for download from http://www.trfund.com/resource/downloads/policypubs/HEMAPBriefTables.pdf

**The Financial Impact of HEMAP May Extend Beyond Homeowners Approved for Financial Assistance**

There is some evidence to suggest that a portion of homeowners facing foreclosure who apply for HEMAP assistance but are denied resolve the delinquency on their own while waiting to find out about their HEMAP application. If even 25% of those denied applicants were able to resolve their delinquency because of the procedural protections offered by HEMAP (through both the period of time between applying and receiving PHFA's final decision and the funded access to a PHFA-certified housing counselor), the total financial impact of HEMAP between 2008 and 2010 could rise to over $1 billion.

| | Approvals | | | |
|---|---|---|---|---|
| | Mean | Median | Min | Max |
| County | 91.97 | 48.00 | 1.00 | 1,255.00 |
| State House | 29.46 | 26.00 | 3.00 | 103.00 |
| State Senate | 119.64 | 104.50 | 47.00 | 268.00 |

**Table 4: Min, Max and Average HEMAP Approvals, 2008–2010**

| | Impact of Approved Applications | | | |
|---|---|---|---|---|
| | Mean | Median | Min | Max |
| County | $ 7,116,190 | $ 3,714,000 | $ 77,375 | $ 97,105,625 |
| State House | $ 2,279,704 | $ 2,011,750 | $ 232,125 | $ 7,969,625 |
| State Senate | $ 9,257,145 | $ 8,085,688 | $ 3,636,625 | $ 20,736,500 |

**Table 5: Min, Max and Average Financial Impact of HEMAP, 2008–2010**

## III. Conclusion

This research brief focuses on the history, cost and financial impact of the HEMAP program. HEMAP has a 25-year track record of mitigating the impact of mortgage foreclosures that arise from circumstances beyond homeowner control. As of June 30, 2011, HEMAP was ended because new funding was insufficient to support demand. While we focus this research brief on the program's financial impact, a growing body of research shows that foreclosures also have adverse impacts on families, on psychological well-being and on the communities in which foreclosures occur.[16] While not all homeowners facing foreclosure can be saved from the loss of their homes—and HEMAP is designed to work with homeowners facing foreclosure due to a limited set of circumstances—precious few programs have the track record of HEMAP. Federal efforts such as HAMP have met with limited success,[17] and the public costs have been significant. We hope that the data provided in this research brief will aid in the efforts of all interested parties to make informed decisions about the HEMAP program.

## IV. Limitations

The potential limitations of any study should be highlighted so that those who wish to use the data can make fully informed decisions. In the spirit of transparency, we highlight those potential issues:

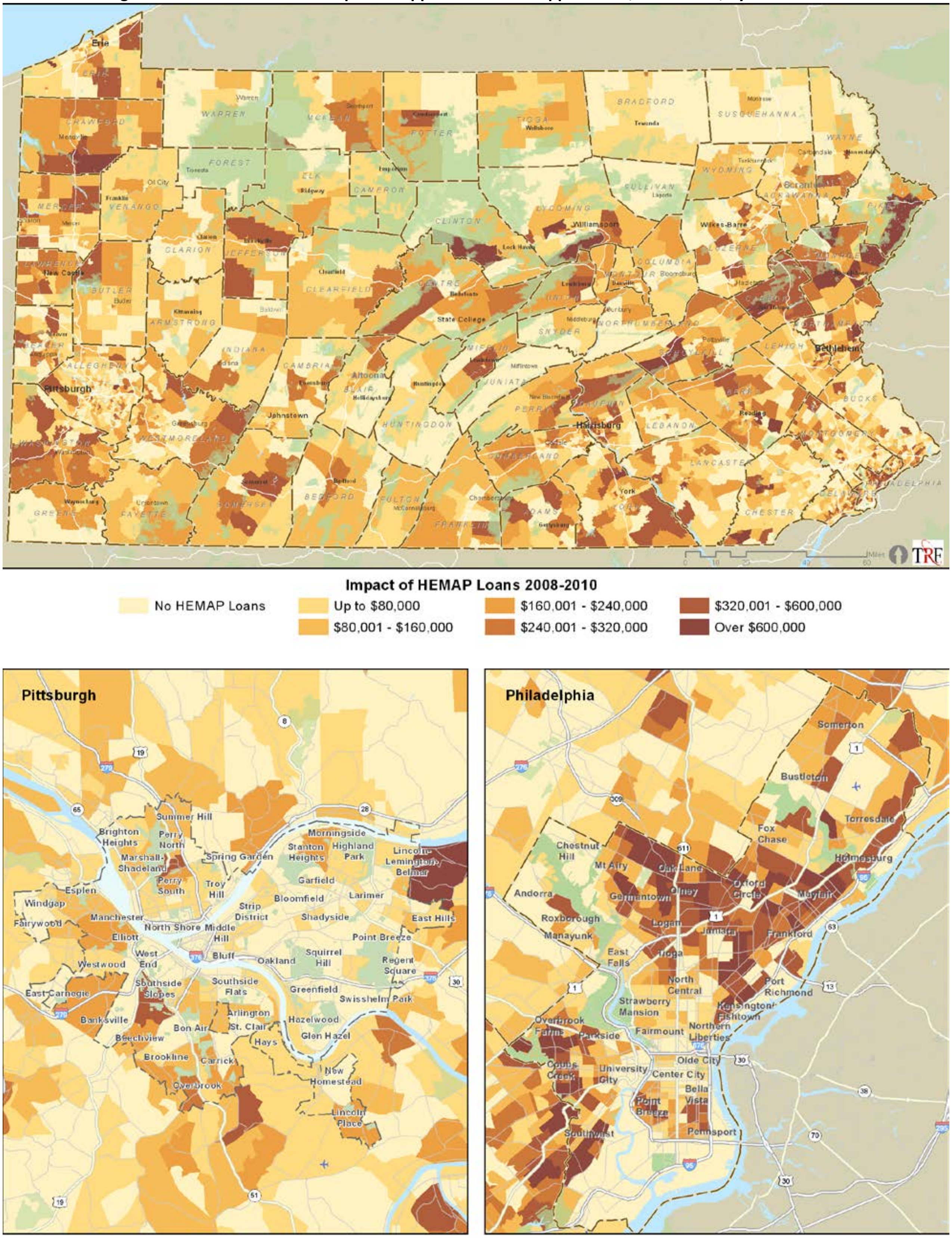
- The MBA NDS data are a statistical estimate of the size and status of loans based on a sample. There is no single official source of foreclosure data in Pennsylvania, as foreclosures are processed on a county-by-county basis and not combined statewide. Thus the MBA NDS data stand as the best statistical portrait of the Commonwealth's foreclosure problem.

- It is possible that there are errors in the HEMAP database, but these data are the only official representation of the HEMAP program outputs.

- In the comparison of HEMAP and MBA NDS data, it is important to note that the MBA NDS data do include government-insured loans, while HEMAP does not provide coverage to homeowners with FHA-insured loans. The result of this discrepancy is that estimates of the impact of HEMAP on overall rank are likely understated; the program most likely had a more positive effect.

- We estimate financial impact based on figures presented in the JEC report. Although the JEC must be considered a generally reliable source, at best it represents a national estimate based on a variety of sources. Even if its figures are fully accurate as a national average, states and counties vary in terms of the administrative processing costs of foreclosures, lender/servicer costs, property values and other associated homeowner costs. Variation in some of these factors will occur not only from state to state or county to county, but also among smaller sub-areas. In short, our application of the JEC data to homeowners approved for HEMAP assistance must be considered an estimate subject to a variety of errors and imperfections.

**Figure 3: Estimated Financial Impact of Approved HEMAP Applications, 2008–2010, by Census Tract**



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## Endnotes

[1] Full copy of the General Assembly of Pennsylvania House Bill 500, Session of 1983, may be accessed at http://www.legis.state.pa.us/CFDOCS/Legis/PN/Public/btCheck.cfm?txtType=PDF&sessYr=1983&sessInd=0&billBody=H&billTyp=B&billNbr=0500&pn=2342.

[2] Circumstances viewed as beyond homeowner control are layoffs or loss of income, a serious medical condition, divorce or legal separation or the death or disability of a household member who contributed to household income.

[3] See http://www.mediafellowshiphouse.org/programs/hemap/HEMAP_2008.pdf for a general description of the HEMAP program.

[4] http://www.newyorkfed.org/research/current_issues/ci17-2.pdf.

[5] Statement by Brian A. Hudson, Sr., executive director of the Pennsylvania Housing Finance Agency. The full text of Mr. Hudson's testimony can be accessed at http://www.house.gov/apps/list/hearing/financialsvcs_dem/hudson_testimony.pdf.

[6] Statement by Brian A. Hudson, Sr. The full text of Mr. Hudson's testimony can be accessed at http://www.phfa.org/forms/public_testimony/Sen_Approp_Comm_testimony.pdf.

[7] http://www.newyorkfed.org/research/current_issues/ci17-2.pdf.

[8] See http://www.innovations.harvard.edu/awards.html?id=127631

[9] Census American Community Survey data show that median household income was $49,520 at the beginning of this recent recession (the 12 months prior to the 2009 ACS) and that it declined to $49,228 in 2010, the most recent year for which income data are available.

[10] Today, MBA NDS data show that the percent of loans in the foreclosure inventory stands at 3.38%, up from 1.95% when the most recent recession began.

[11] Homeowners applying for HEMAP assistance were required to do so through a PHFA-approved housing counseling agency. Agencies were trained, certified and funded to provide that assistance. When HEMAP was ended, there were well over 200 housing counseling agencies serving every county in the Commonwealth. A list of these agencies can be found at http://www.phfa.org/forms/counseling_agencies/hemap_agencies/hemap.pdf.

[12] TRF completed a study of mortgage foreclosures in Pennsylvania in 2005. Using 2003 data, TRF found that Pennsylvania's prime foreclosure rate (0.85%) was 9$^{th}$ in the nation and the subprime rate (11.94%) was 4$^{th}$. As of Q4 2010, the corresponding rates are 2.22% and 11.79%.

[13] Costs associated with a foreclosure arise from a variety of sources. For example, lenders/servicers typically incur costs associated with acquiring the property in foreclosure. They may also incur costs for the repair and marketing of the property for resale and the interest lost during the homeowner's delinquency. Local governments might incur costs associated with lost tax revenue, police and fire calls to vacant properties and the administrative processing of foreclosures. Homeowner costs may include legal fees, lost equity and an impaired credit history. Neighbors of homeowners in foreclosure may experience a loss in the value of their homes, even if they remain current on their mortgages, owing to their proximity to a home in foreclosure.

[14] The largest part of the total financial impact reported by the JEC is attributed to the cost that lenders/servicers experience in taking a property to foreclosure. The $50,000 estimate is within the range of what others report. For example, Cutts and Green (2004), citing the work of Focardi (2002), report that properties going all the way through foreclosure (taking an average of 18 months) cost $58,759. In cases in which the homeowner voluntarily gave up the home, costs declined to $44,000. The Mortgage Bankers Association (2008) summarizes a variety of studies and concludes that

total foreclosure costs are "over $50,000 per foreclosed home or as much as 30 to 60 percent of the outstanding loan balance" (p. 2).

[15] There are some approved HEMAP applicants for whom the listed address in the PHFA database could not be precisely geocoded. This means that we could not identify, with precision, the legislative district. The statistics reported in tables 4 and 5 eliminate these applications from the calculations. All applications did have county noted.

[16] See, for example, Kingsley et al. (2009), Pollack and Lynch (2009) and Baxter and Lauria (2000) as representative of the literature demonstrating the nonfinancial impacts of foreclosure.

[17] See http://www.sigtarp.gov/reports/audit/2010/Factors_Affecting_Implementation_of_the_Home_Affordable_Modification_Program.pdf.

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TRF
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## About The Reinvestment Fund

The Reinvestment Fund (TRF), a national leader in the financing of neighborhood revitalization, has invested $1 billion in mid-Atlantic communities since 1985. As a CDFI, TRF finances projects related to housing, community facilities, supermarkets, commercial real estate and energy efficiency. It also provides public-policy expertise by helping clients create practical solutions and by sharing data and analysis via www.policymap.com.

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