STATE OF NEVADA

Department of Business and Industry

HOME MEANS NEVADA

HOME RETENTION PROGRAM

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STATE OF NEVADA
DEPARTMENT OF BUSINESS AND INDUSTRY

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EXECUTIVE SUMMARY

The $149 million Home Means Nevada Home Retention Program is designed to assist those individuals and families at risk of losing their homes who have not been helped by the myriad of other housing programs.

The goal of the program is to stabilize home ownership and neighborhoods and return home mortgages to current market value. This is a principle reduction program which leaves the original interest rate intact as long as it falls within a floor-ceiling range to be determined. Loans that are outside that range may be modified if the program chooses. The new notes will be for 100% plus 20% of current market value. The 20% is without interest, to incentivize homeowners to work with our housing counseling agencies to bring their total debt payment below 45% within the next two years. This will enable homeowners to build their credit profile and enhance their eligibility for refinance within a reasonable timeframe. Once the homeowner is in position to refinance the loan and exits the program, 20% of the initial note will be forgiven.

A number of programs implemented in Nevada have failed to have a major impact in the marketplace due to the magnitude and depth of Nevada's housing crisis. Nevada's large shadow inventory of more than 52,000 delinquent and underwater homes is an impediment to true housing recovery in Nevada. The value of many of these homes has eroded 60% to 70% since the peak in 2007-08. These toxic underwater mortgages breed different kinds of default, such as:

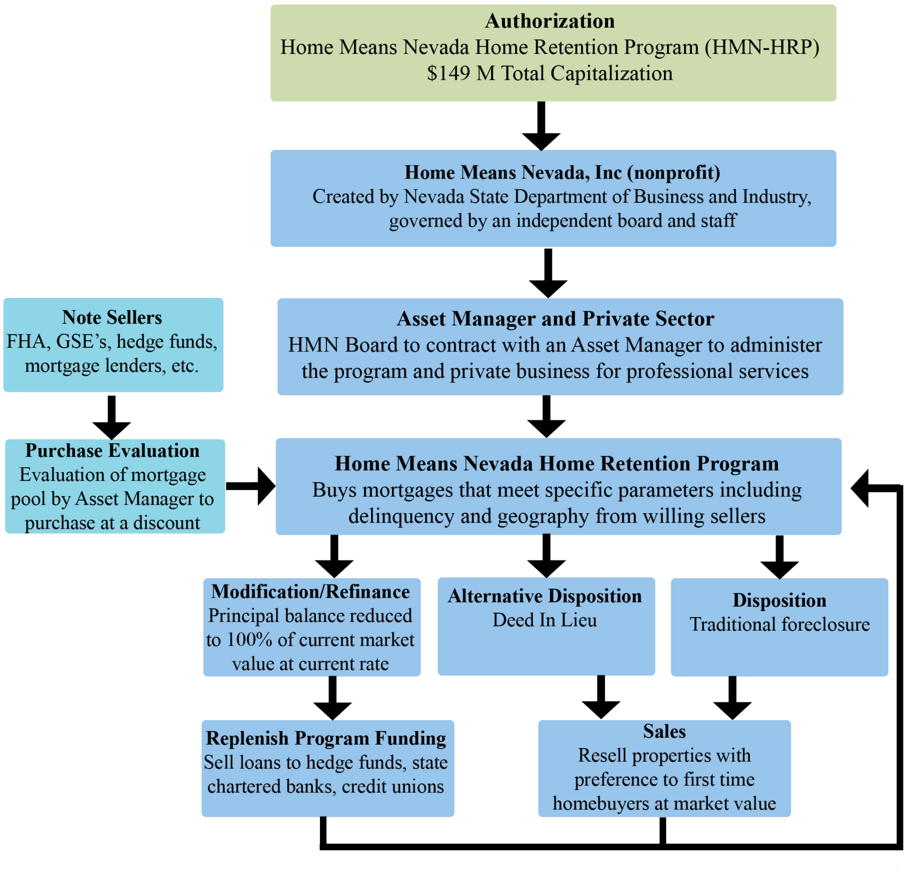
- Strategic defaulters who can pay their monthly mortgage but walk away because they are so far underwater;
- Creative defaulters who exploit the opportunity to default on their payments and until foreclosed upon and evicted, live rent free. Some even rent their home to tenants while pocketing the money owed to the bank;
- Homeowners bruised by the economic recession and unemployment who cannot afford their current mortgage payments or those who were victims of unscrupulous lenders and now find themselves in danger of losing their biggest investment – their home.

The Home Means Nevada program buys discounted pools of underwater mortgages using funds from federal sources and the national mortgage settlement agreement and will work to keep qualified homeowners in their homes by refinancing their loans at current market value and interest rates. Homeowners will be provided every opportunity to retain the home. If the homeowner can't qualify, transition assistance of up to $5,000 will be provided. With a deed in lieu in place, the property will then be sold to eligible owner occupants. Homes that are vacant, abandoned or delinquent and tenant occupied will be promptly foreclosed and resold to eligible buyers.

Renegotiating mortgages to refinance the home at current market value and interest rate gives the homeowner the opportunity to start building equity, and in turn, helps stabilize neighborhoods. It also helps the housing market come to grips with the systemic risk posed by inflated mortgages that were acquired during the bubble. Foreclosures are expensive and time consuming; this program will help expedite a transition for unqualified homeowners either unable or unwilling to keep their homes in spite of their best efforts. When these homes are reoccupied, it will lead to stability in property values, payment of property taxes, homeowner's association dues and pride of ownership.

The organizational structure of the nonprofit entity formed to administer this program will be very lean and efficient. The majority of the professional services required to carry out this process will be contracted to the private sector, including: asset manager, housing counseling agencies, licensed contractors, realtors, title companies, loan servicing companies and property managers.

This program will create $201 million of direct economic activity and $432 million of induced economic activity while assisting nearly 4,600 homeowners. Homeowners receiving principal reduction to near current market value will have approximately $15,000 in additional disposable income to contribute to economic activities. At the culmination of this program, it will have generated approximately $48 million in program income for Nevada taxpayers in addition to returning the initial investment back to the Nevada State General Fund.



BACKGROUND

Nevada, with a population of 2,700,551 and 554,888 mortgages, is not the largest state in the union but has arguably experienced a disproportionate share of the nation's housing problems. Nevada ranks at the top of the list for foreclosure rates and unemployment. Both of these factors have a tremendous impact on the state's economic productivity.

At the epicenter of the housing crisis is the problem of negative equity with 57% of homes in Nevada underwater. The current data indicates that Nevada homeowners have approximately $8.6 billion in negative net equity ("underwater mortgages"), which per capita, is the highest in the nation. The major share of this negative equity rests in Clark County closely followed by Washoe County. These underwater homeowners are less likely to have or utilize disposable income to contribute to economic activity. In addition, Nevada has experienced a growing number of strategic defaults resulting in an increase of preventable foreclosures, further contributing to the decline in home values.

A number of the programs developed to date have not significantly addressed the plight of underwater homeowners. To many lenders and policymakers, assisting such homeowners presents a "moral hazard." In other cases, principal reduction programs have failed because they require the participation of lenders who object for other reasons, including requirements to provide matching funds. The Hardest Hit Fund, which works in many other states, does not solve Nevada's problem because many of the mortgaged homes are more than $50,000 underwater. Inconsistent principal reduction policies among states have also been cited as barriers to participation by national lenders. Lastly, many of the current programs have excluded large numbers of homeowners on the basis of income levels or ownership in multiple properties.

Prospective homebuyers seeking entry-level housing are frequently outbid by cash buyers, usually real estate speculators, looking to capitalize on opportunities in a depressed real estate market. We have and continue to seek solutions to correct the problems with the housing market and move our economy forward.

OUR PROGRAM ABIDES BY THESE GUIDING PRINCIPALS:

1) Leverage public/private partnership
2) Limit taxpayer exposure
3) Assist homeowners unaided to date
4) Emphasis on reducing negative equity
5) Enforcement and education

PROGRAM OBJECTIVES

The Home Retention Program aims to increase homeownership and stabilize neighborhoods through home retention, preservation and assistance to first time homebuyers. This program attacks the issue of underwater mortgages and negative net equity, promotes ongoing economic activity, resumes payment of property taxes and homeowner's association dues and returns pride of ownership resulting in neighborhood preservation.

This is the first proposal of its kind created by Nevadans to address the unique and acute housing challenges faced by Nevada's homeowners.

The Department of Business and Industry proposes to leverage $49 million from the national mortgage settlement proceeds supplemented with $ 100 million from the US Treasury to acquire and restructure underwater mortgages at rates and values more reflective of current market conditions. This would be carried out through a non-profit corporation specifically created for such purposes (e.g. Home Means Nevada, Inc.).

This program also aims to transition vacant or abandoned homes to owner occupants, who will then maintain these homes, promote neighborhood stabilization and contribute more to the economy.

THE PREMISE OF THE HOME RETENTION PROGRAM IS SIMPLE:

Identify underwater Nevada properties with defaulted mortgage loans before foreclosure action has begun; buy them at a discount to current market value; and resell them to existing occupants at current fair market value, providing mortgage loans the homeowners can afford to pay.

Appropriate underwriting and tailored mortgage products can:

- Enable many underwater homeowners facing foreclosure to remain in their homes at an affordable housing debt ratio ensuring sustainability.
- Return the homeowner to a position to start building equity in their home.
- Prevent displacement, vacancy and further neighborhood destabilization.
- Clear the market of underwater delinquent inventory, which will help stabilize neighborhoods and restore homebuilder and buyer confidence in the market.

PROGRAM PARAMETERS

A) A pool of delinquent owner occupied loans from private commercial banks, government sponsored entities (GSE's) and state chartered banks will be identified and obtained at a sufficient discount to make the program viable.

B) All loans acquired will be those of residences more than 90 days delinquent and not in a bankruptcy or foreclosure proceeding.

C) Loans will be purchased at a sufficient discount to market value in order to repackage them at 120% of current market value and unmodified interest rate (subject to a floor and ceiling) to enable a qualified homeowner to refinance and retain their home. For example: A homeowner may have an outstanding $400,000 mortgage loan but the home is worth only $200,000. The loan would be purchased for $140,000, a 30% discount to market value.

D) For loans that have a second lien, the program will "modify" the first to 120% of current market value which will enable the program to retain lien superiority in the event of default, allowing the investor or program to maintain the first position on the note.

E) Purchased loans will have an unpaid principal balance of less than $417,000, the current FHA loan origination upper limit.

F) If a homeowner does not qualify, even after the revision to the mortgage terms, transition assistance will be offered. Homeowners who can't participate will be referred to a suitable rental property under relocation assistance programs made available to them. These homeowners will be offered a choice of taking a deed in lieu or proceeding with a traditional foreclosure. Upon completion of either process, the property will be marketed for sale to first time homebuyers and other qualified individuals with a stipulation of owner occupation.

G) Only loans originated between 2002 and 2008 (the bubble period) will be considered for inclusion in this program.

H) Refinanced loans would have a standard delinquency and foreclosure profile thus necessitating only standard debt service reserves and mortgage delinquency reserves.

I) Once seasoned, these loans will be sold to hedge funds and depositories including state chartered banks and credit unions.

J) Private sector business will be engaged and contracted when possible to carry out the professional services required to conduct this program.

" It always seems impossible until it's done."
- Nelson Mandela

K) In the event the program must be wound down prior to the planned culmination of the program, acquired loans will be sold giving consideration of the cost of acquisition and carrying costs in order to avoid losses to the program.

PROGRAM OUTCOMES

Once the initial program funding is acquired, governance will be formalized and service providers will be contracted. The non-profit organization will then act judiciously to acquire mortgages that are 90 or more days delinquent. Qualifying mortgage will be acquired at approximately 70% of the home's current market value. Loans will be modified, refinanced or sold. Each loan's principal balance will be reduced to no less than 120% of the home's current market value and unmodified interest rate subject to a floor and ceiling.

> "Surely there is a strong case for experimentation with principal reduction strategies at the local level."
>
> -Lawrence Summers
>
> *Former Treasury Secretary under President Clinton and former Economic Advisor under President Obama*

The additional 20% will not bear any interest and will be forgiven once the homeowner exits the program.

Delinquent underwater mortgages will be evaluated and purchased from government sponsored entities, commercial banks, state chartered banks and credit unions. Pricing will be determined by the quality of loans purchased, market value and the probability of home retention. Once the non-performing loans are procured, loan servicing rights will be transferred to the Asset Manager within 30 days. Borrowers will be contacted by a certified Nevada housing counseling agency contracted by the Home Means Nevada Asset Manager. The housing counseling agency will complete a client assessment, obtain required program information and complete a financial analysis prescribed by the program for the homeowner's participation in the program.

This program will replenish funds by selling 75-80% of these repackaged loans to hedge funds and financial institutions such as state chartered banks and credit unions. The proceeds from the sale of properties that did not qualify for home retention will also be returned back to the program as well as scheduled principal and interest payments on the portfolio of loans serviced by the HMN Asset Manager. With the return of these funds to the program, it will enable the program to purchase additional non-performing loans to assist even more Nevada homeowners.

<u>It is anticipated that the program will acquire nearly 4,600 mortgages during the 7 year period with a goal of retaining 50% of these individuals in their homes.</u> This program will also stimulate $201 million of direct economic activity with $173 million in direct revenues to realtors, title companies, contractors, property managers, insurance

agents, accountants, attorneys, etc. Induced economic impact is anticipated to top $432 million. This program will also provide transition assistance of more than $ 3 million to dislocated residents.

Home Retention

Under the home retention program, refinance will be available to borrowers who:

- Purchased the home between 2002 and 2008
- Have a current principal balance of not more than the FHA loan limit of $417,000
- Can demonstrate sufficient verifiable income to support a mortgage that meets program guidelines for affordability
- Can demonstrate an ability and desire to bring total debt in line to meet program guidelines for sustainability
- Will be engaged with a qualified housing counselor during the program period after loan refinance to lower non-mortgage household debt and to make mortgage payments on time.

Below is an example of how this program will impact a qualified homeowner:

	2007	Today	After Refinance
Home Value	$417,000	$200,000	$200,000
Mortgage Balance	$404,490	$376,395	$200,000
Home Equity	$12,510	$(176,395)	$0
Mortgage Interest Rate	6%	6%	6%
Monthly Mortgage Payment (P&I)	$2,425	$2,425	$1,200
Income Required to Qualify	$93,870	$93,870	$46,451.61
Annual Increase in Disposable Income for Homeowner	-	-	**$14,700.00**

Affordability is defined as a housing expense ratio not greater than 31% of gross household income. After their loan is acquired by the program, all borrowers who elect to participate in the refinance process must meet with a HUD certified housing counseling agency. The housing counselor will work with borrowers to complete a detailed retention plan and will work to reduce total household debt with the goal of obtaining a total debt ratio of 45%.

Initial interest rates will carry over from what is currently being charged to the homeowner with a floor rate and a ceiling rate (for example, a floor of 4% and a ceiling of 7% per annum) amortized over thirty year and fixed for thirty years. In other words, the homeowner will have a thirty year fixed rate loan at the unmodified interest rate on the note providing that the existing rate falls within the specified range. Rates outside of that range may be modified by the program.

Once qualified, mortgage payments will begin once the borrower has been approved and a new note is executed.

Alternative Disposition – Deed in Lieu/ Foreclosure

Only as a last resort will this program commence proceedings to take back ownership of the property of a borrower who is unable or unwilling to participate in this program. For those households not eligible for home retention, the program offers alternative disposition options including deed in lieu or traditional foreclosure. Transitional assistance will provide a security deposit for rent and two months of rental assistance on a case by case basis in return for a deed in lieu of the property when occupied by an unqualified homeowner. The home will be rehabbed and marketed for sale to owners who intend to occupy the home as their primary residence.

For those properties determined to be vacant, abandoned or occupied by tenants, the foreclosure process will be initiated and the home will be rehabbed and marketed for sale to eligible buyers.

In addition, it is anticipated that despite the housing counseling agency's best attempts to reach out to owner occupants to determine their eligibility to refinance, many eligible borrowers will choose not to respond or will refuse to provide required documentation necessitating the initiation of the foreclosure process.

ECONOMIC IMPACT OF THE PROGRAM (IN MILLIONS)			
	DIRECT	INDUCED	TOTAL
Total Increase In Disposable Income for Homeowners	$27	$58	$85
Direct Economic Activities Generated through Contracts	$174	$374	$548
TOTAL BENEFIT TO ECONOMY	**$201**	**$432**	**$633**

ORGANIZATION

The Director of the Department of Business & Industry, pursuant to NRS 232.520 (4), is authorized to create a nonprofit entity in accordance to NRS 82 when the Director determines it necessary or convenient for the exercise of the powers and duties of the department. Under that authority, the Director of Business & Industry established a nonprofit under the name of Home Means Nevada, Inc. This non- profit is state approved and a federal exemption under 501 (c)(3) is being processed. Home Means Nevada, Inc. is charged with the administration of the Home Retention Program. The current board will be amended to include the following members who will serve at the pleasure of their appointing authority:

- **Permanent Chair**: Director, or Deputy Director of Programs, from the Department of Business and Industry
- **Permanent Vice-Chair**: Nevada Housing Division Administrator
- **Financial Lending Institution representative**: appointed by the Legislative Commission from a list of three names submitted by Financial Institutions Division (3 year term with one additional term at the discretion of the Commission)
- **Mortgage Lending representative**: appointed by the Legislative Commission from a list of three names submitted by Mortgage Lending Division (3 year term) with one additional term at the discretion of the Commission
- **Real Estate representative**: appointed by the Governor from a list of three names submitted by Business and Industry. (3 year term with one additional term at the discretion of the Governor)

The board will assume the following roles and responsibilities;

- Ensure that program funds are spent in a manner to maximize returns on investment
- Act as the appeal board to the stakeholders of the program
- Overall program oversight
- Regulatory/ legal compliance
- Oversee program marketing initiatives
- Procurement of underwater notes
- Asset Manager evaluation and selection
- Cash flow management

IT SYSTEMS

There are many software packages available in the marketplace that can be customized to suit program needs. For example, Encompass 360 is a mortgage loan origination software solution with client management systems integration and customization capabilities. On the other hand, there are off the shelf products that can be customized and subscription based platforms such as equator, RESNET, and RIO Genesis that also cater to this program's needs. All of these will be considered and the ultimate decision will be made by the board in consultation with the Asset Manager.

LOAN SOURCING

The Home Retention Program will carefully evaluate each of the loans purchased to ensure they meet the goals and objectives of the program. The program will work directly with mortgage servicers, private investors, hedge funds, GSE's and others to indentify and facilitate the purchase of these notes. It will also work with market intermediaries like investment bankers to identify a pool of mortgages in the capital market closely tailored to the program guidelines.

The Home Retention Program will engage in in-depth due diligence on prospective pools of notes made available for purchase. The Asset Manager will conduct the loan level due diligence review and information audit in order to make an informed recommendation to the board. Information such as geographic location, payment history and delinquency status, current balance, occupancy status, lien position, front and back end ratios, historical and current credit scores of borrowers, original and current property value, bankruptcy or foreclosure proceedings, hardship considerations and property mortgage insurance coverage will be reviewed.

DUE DILIGENCE WILL BE COMPLETED TO ENSURE:

Each loan was made in conformity with lending laws in existence at the time it was originated.

Each loan is enforceable (i.e. the collateral documents are properly executed)

Each loan is secured by an enforceable and properly recorded first mortgage lien.

Documents and servicing reports of each loan support the information supplied by the seller (e.g. principal balance, interest rate, origination date, payment history, etc.)

All proper consumer disclosures were made at origination and were prepared in conformity with legal requirements in effect at the time of origination

The value of the secured property and the trend of neighborhood property values are determinable using broker price opinions or automated valuations models.

A title search will be conducted on each property to determine tax lien status and existence of a second mortgage lien. The program will use a combination of automated valuation models, Broker Price Opinions and/or appraisals to arrive at the current market value of each prospective property. All of the additional costs associated with liens, encumbrances, and market conditions will be factored into determining the true market value.

Additionally, some or all of the following from the document checklist below may be gathered. Given the nature of distressed mortgage loans, it is possible that some requested data is not readily available and/or may not be required to arrive at a loan purchase recommendation.

DOCUMENT CHECKLIST

- ☑ Borrower credit file information
- ☑ Disclosures – federal and state
- ☑ HUD-1 Settlement Statement
- ☑ ARM Disclosure, if applicable
- ☑ Borrower's Certification and Authorization
- ☑ Note, with endorsements
- ☑ Mortgage, with assignments and recording information
- ☑ Title insurance policy
- ☑ Mortgage Insurance Policy or Mortgage Guaranty, if applicable
- ☑ Other closing documents
- ☑ Validatation of rate accuracy
- ☑ Loan type, property type and purpose
- ☑ Original LTV and Current LTV
- ☑ Any other information supplied in the seller's bid tape

Once the information is compiled, each loan is reviewed and analyzed to determine suitability of purchase and offer. The Asset Manager's Due Diligence Report will show the results of these findings**.** This report also contains an Investment Feasibility Report which is submitted to the Home Means Nevada Board with the following information:

- Loans that passed DD with no exceptions
- Loans that failed DD with reasoning
- Loans that technically failed but have possible mitigating circumstances
- Missing documents/data/information
- Summary description of the transaction that includes a description of the portfolio composition such as, but not limited to; automated valuations, Broker Price Opinions, occupied or vacant analysis, second or other liens, HOA and/or SID dues, any pending constructions defects claims or lawsuits, clue report findings, estimates of rehabilitation costs, and any other encumbrances that might survive a foreclosure or otherwise impact the program.
- Loans with negative impound accounts
- Terms of the pool trade (purchase price, pool BPO, est. pool UPB)
- Recommended range of pricing, if different than the proposed pricing

Based on the analysis, the board will determine an adequate offer price for the portfolio and negotiate with the seller of these notes. Once the pool is negotiated, a purchase and sale agreement will be drawn up with a minimum of the following components: description of the portfolio to be purchased, the agreed upon price, the terms and conditions of the sale, closing date, targeted servicing transfer date, representations and warranties of the seller and conditions necessary to close (e.g. the mortgage delivery and assignment process, Custodial Exception Report and Certification, etc.).

PROGRAM OUTREACH

Once the loan is transferred to the program, the Asset Manager will send a contact letter to the homeowner notifying them of the change of the loan's servicer. A HUD certified housing counseling agency contracted by the program will establish contact with the homeowner within 30 calendar days from the date of loan acquisition using their best efforts. If the housing counseling agency is unable to make contact with the homeowner after five documented calls, two in-person visits to the residence and one registered letter, the Asset Manager will be notified and will then escalate this matter to the board. The board will work with its staff to make an attempt to contact the homeowner. If the board is unable to establish contact, it will turn the file over to the Asset Manager for alternate disposition.

UNDERWRITING

The following documents will be procured for manual underwriting of the loan.

Documents to be verified in underwriting:

- Valid government issued photo identification (passport or driver's license)
- Executed hardship affidavit
- Executed Dodd Frank certificate
- Executed Privacy Notice/Information Sharing Policy
- Initial verification of employment
- Current income for all borrowers including paystubs for the past sixty days and 2 years of tax returns for all borrowers for the previous 2 years; for self-employed, 2 years of tax returns, 1099's and profit and loss statements, evidence of business ownership and if necessary, a list of contracts and orders
- Two months of most recent statements for all cash asset accounts
- Details and evidence of payment under any divorce settlement, alimony or child support. If public support is a part of normal income, letters of approval, amount, payment schedule and duration must be provided
- List of automobiles including make, model and year along with any loan balance and payments due
- List of all credit cards, installment and student loan debt including current outstanding balances and/or delinquencies and required minimum monthly payments
- Details of any past due taxes, personal or property, and copy of payment or settlement agreements if approved by municipal, state or federal tax authority

The homeowner's new mortgage terms will ensure housing debt below 31% of household income defined as gross monthly household income. These notes will be refinanced at 120% of market value. The interest will be charged on current market value only. The current interest rates of all notes purchased by the program will be observed and will not be modified unless rates fall outside of the established floor and ceiling range or at the discretion of the program. All loans will be amortized and fixed for thirty years. The homeowner will work with housing counseling agencies to bring their total debt payment below 45% within the next two years. This will enable homeowners to build their credit profile and enhance their eligibility for refinance within a reasonable timeframe. Once the homeowner is in the position to refinance the loan and exits from the program, 20% of the initial note (charged at 120% of loan to value) will be forgiven on close of escrow.

Properties with additional liens will benefit from residential loan modification of the purchased loan only (junior or second liens will not be purchased by the Program and therefore will not be modified). Modifications will consist of principal reductions only.

PROGRAM SERVICES CONTRACTING

The program will use three ways of hiring/contracting service providers (see attached schedule): Competitive, Sole Source and Pool. **Competitive-** Needs are best served by soliciting proposals from everyone; **Sole Source**- Where the program interests are best served by identifying a group that can provide a synergy or unique capabilities or a reduced cost to the program; **Pool**–This is used where many service providers available in the marketplace and the program sets some overall parameters that would qualify the service provider to be included in the pool.

PROGRAM SERVICES CONTRACTING

Service Provider	Types of Services	Contract Type	Reports to
Asset Manager	Program operation, Customer service Note evaluation/purchase, Vendor oversight, Portfolio management, Final underwriting of loans, Physical asset management, Quality assurance, Sales of notes, Alternate asset disposition, Program settlement/closing, Program policies and procedures	Competitive	HMN Board
Certified Public Accountant	Financial management & reporting, Financial audit, Compliance review	Competitive	HMN Board
Housing Counseling Agency	Customer outreach, Document collection, Preliminary underwriting, Primary property recommendation, Credit counseling	Sole Source	Asset Manager
Mortgage Servicer	Service loans, Collections, Foreclosures	Competitive	Asset Manager
Realtors	Property valuation, Listing and sales	Pool	Asset Manager
Attorneys	Drawing loan docs, Legal counsel, Board attorney, Foreclosures, Collections	Competitive	HMN Board/ Asset Manager
Property Managers	Property maintenance, Property security/preservation	Pool	Asset Manager
Rehabilitation Contractors	Property rehabilitation	Pool	Asset Manager
Title Companies/ Insurance Agents	Title reports, Lien research and settlement, Escrow accounts, Closing services, Property liability insurance	Pool	Asset Manager

ENCUMBERANCES AND LIENS

In the event the property has encumbrances and/or liens, it is to be treated as follows:

- HOA liens, property taxes due, and IRS liens will be paid by the program but added to the principal owed by the homeowner in the event the homeowners are financially unable to pay these dues out of pocket. In the event a homeowner is financially able to pay such liens or part thereof, the program will only refinance the homeowner once those liens are paid. For those properties with excessive lien costs, they may be disqualified from the loan pool.
- Second Mortgages - The Program will take these second mortgage liens into consideration while evaluating the individual loans for purchase. After purchase, the program will have several options to deal with the issue of second mortgages:
  - Modify the loan in place of refinance
  - Negotiate a settlement with the second mortgage
  - Create a subordination arrangement with the second mortgage
  - Foreclose to terminate the second mortgage

RECORD RETENTION

All documents in this program will be scanned and preserved as follows:

- All original records pertaining to acquired loans will be kept in a dedicated file room and a scanned digital copy will be available online. An annual audit of these original notes will be performed by the program's Certified Public Accountant.

- All records pertaining to closed loans will be kept for five years following the loan payoff and release. Documents that can be retained in original form will be preserved in a file room dedicated to the business records. All original documents will be scanned, indexed and preserved seven years from the time the program culminates.

" Our economy isn't going to recover until the housing market finds its footing." - Mark Zandi

- All application original documents will be maintained for 24 months and in electronic form for five years. Copies of all notes, deed of trusts, and contracts will be retained for seven years after the program culminates. All other documents will be retained by the program for three years.

STATUTORY AND REGULATORY COMPLIANCE

The program will work proactively with its partners to ensure compliance with all statues and regulations at the Federal, State and local levels.

Federal Housing Legislation

- Safe and Fair Enforcement for Mortgage Licensing Act (SAFE) and Nationwide Mortgage licensing Act (NMLS)
- Fair Lending Practices – Fair Housing Act, Home Mortgage Disclosures Act, Equal Credit Opportunity Act
- Home Mortgage Disclosure Act
- Truth in Lending Act
- Real Estate Settlement Procedures Act
- The Fair and Accurate Credit Transaction Act
- Fair Credit Reporting Act
- Flood Disaster Protection Act

Nevada Housing Legislation

Loan Modification

- Nevada AB 471 modifies the state's foreclosure law to provide borrowers the opportunity to cure delinquencies and make payments prior to entering foreclosure.
- Effective July 1, 2009, AB 149 modified Nevada's existing foreclosure law. The law includes a provision which allows homeowners to postpone foreclosure proceedings to pursue mediation for a mortgage loan prior to foreclosure proceedings. The bill also established a state Foreclosure Mediation Program.

Outreach

- Nevada is one of 47 states in which a state agency, city agency, or nonprofit organization has partnered with Neighbor Works America, The Homeownership Preservation Foundation, and the Ad Council to create Public Service Announcements encouraging homeowners to call the 1-888-995-HOPE Hotline or visit www.995HOPE.com.

- Nevada enacted a statute on Mortgage Lending and Related Professions in 2007; Chapter 645F.300 – 645F.450, Nevada Revised Statutes.

Renters

- Nevada has enacted AB 140, requiring property owners to give renters notification and 60-days notice prior to eviction.

Stabilization

- Nevada SB 128 specifies certain reporting requirements during a foreclosure proceeding, and imposes a timeframe for reporting.
- Nevada AB 361 allows a unit-owners' association access to a foreclosed property for the purpose of maintenance and upkeep.

Anti-Predatory Lending

- 2007 Predatory Lending Law; 2003 Acts Ch. 64 of 2003

Other Regulation

- Nevada AB 486 strengthens regulations related to mortgage lending, including imposing new penalties for brokers conducting business without a license.
- AB 151 requires mortgage loans to include the license number of the mortgage broker.
- AB 152 establishes licensing requirements for professionals providing loan modification services and foreclosure consulting.
- Nevada is one of 45 states that have adopted the CSBS/AARMR Guidance on Nontraditional Mortgage Product Risks. The guidance aims to assist state regulators of mortgage brokers and mortgage companies not affiliated with a bank holding company or an insured financial institution to promote consistent regulation in the mortgage market and clarify how providers can offer nontraditional mortgage products in a way that clearly discloses the risks that borrowers may assume. In order to maintain regulatory consistency, this guidance substantially mirrors the interagency guidance,

"Way out in the land of the setting sun,
Where the wind blows wild and free,
There's a lovely spot, just the only one
That means home sweet home to me."
- *Home Means Nevada*, Nevada State Song

except for the deletion of sections not applicable to non-depository institutions.

- AB 284 - Added stricter requirements for the foreclosure process. As of October 1, 2011, anyone filing a notice to initiate foreclosure under Nevada Revised Statutes (NRS) 107 must include a notarized affidavit documenting certain information regarding the ownership of the property that is the subject of the foreclosure, the authority of the trustee, and the amount in default and related fees and costs. In addition, AB 284 states that mortgages and assignments of real property may not be enforced unless they are recorded in the office of the recorder of the county in which the property is located. AB 284 helps to protect Nevadans' right to accurate information during foreclosure by allowing homeowners to seek damages and an injunction against anyone who acts contrary to NRS 107.080 during the foreclosure process. There are also stricter criminal penalties for anyone who purposely tries to defraud a homeowner by making a false representation or recording a false document. AB284 strengthens the Attorney General's enforcement authority over foreclosure fraud.

PROGRAM PARTNERS

The program will engage and contract with industry professionals where possible. The roles and responsibilities of the service providers are as follows:

Asset Manager

The Asset Manager is responsible for the overall operations of the program.

1. Ensure that customer service standards are met
2. Loan pool purchase evaluation
3. Service provider oversight
4. Portfolio management
5. Management of physical records, assets and notes
6. Negotiation with second mortgage, liens & encumbrances
7. Quality assurance and compliance with consumer financial protection bureau requirements
8. Program settlement and closing
9. Program policies and procedures
10. Manage contracts of private sector professionals

Housing Counseling Agency

A cooperative working relationship between the Asset Manager and the Housing Counseling Agency is central to the success of the Home Retention Program. The exchange of information between the Asset Manager and the Housing Counseling Agency must be frequent and collaborative. Each has a role in the successful completion of the application process and in providing and tracking information and documents throughout the process. The accuracy and completeness of all files is also critical to full compliance with all federal and state requirements and will be monitored and audited on a regular basis.

The application process begins with the Asset Manager turning over the files to the Housing Counseling Agency who will be responsible for making contact with the homeowners in order to qualify the homeowners for assistance. The housing counseling agency will also collect the intake form, information on income and employment, non-mortgage debt levels and monthly payments, household expenses, assets, available cash and reasons for the default on the mortgage.

> **“Most economists see principal reductions as central to preventing foreclosures.”**
>
> -Alan Blinder, former Vice Chairman at the Federal Reserve

The housing counseling agency also acts as a debt counselor to qualified homeowners and will assist them in bringing total household debt in line with program objectives. The housing counselor assigned to the homeowner creates a plan for the homeowner by assessing the ability to reduce outstanding debt, create and monitor a household budget, coach expense control and reduction strategies, evaluate income augmentation opportunities, and develop a saving plan.

Licensed Real Estate Professionals

A licensed real estate professional plays a very crucial role in the process. Their functions can be broadly defined to include:

1. Establish current market value of the property during due diligence review
2. Establish current market value for sale of the property
3. List, market and sell properties indentified for sale by the program

The Realtor is required to ensure that all Brokers Price Opinion reports should cover the following:

- BPO review to validate that the BPO was made on the subject property by comparing photos and address to documents in the origination file, and to validate the price opinion and assess marketability.
- Assessment of current property value
- Repairs required as indicated in the exterior inspection made at the time the BPO was done and/or through comments made by the servicer
- Condition of property as indicated in the exterior inspection made at the time the BPO was done and/or through comments made by the servicer
- Current occupancy status as indicated at the time the BPO was done and/or through comments made by the servicer
- Property value trends to the extent possible with market data provided by the broker

A realtor who supplies the Broker Price Opinion for a home in the program will be given the first opportunity to market and sell that property if it cannot be retained. Once a home is ready to be sold, the property will be listed with the real estate agent for sale to owner occupants. If no qualified offers are received by potential owner occupants within 90 days, all offers will be entertained. All offers for purchase of properties owned by the Home Retention Program will be submitted to the Asset Manager, who, working in conjunction with the board, will accept an offer that provides the best return on investment to the program. Any rejection or acceptance of the offer will be communicated by the Asset Manager to the listing agent within five working days of offer submission. The Asset Manager will inform the listing agent which title company will open escrow and complete the transaction as required under Nevada and federal laws and regulations. Once the property is closed, the funds will be remitted within 24 hours by the title company through electronic transfer and notice will be provided to the listing agent, Asset Manager and designated board staff. All realtors and staff will must meet education and training requirements.

<u>Property Managers</u>

Once a vacant or abandoned home is acquired or becomes such, until the time it is occupied or sold, a licensed property manager is charged to ensure that the home is properly maintained. They are responsible to ensure that locks are changed, lawful evictions are executed, property is adequately secured, utilities are turned on, landscaping is maintained, repairs are done and regular inspections are completed.

Appraisers

Qualified appraisers will have an opportunity to conduct Broker Price Opinions and appraisals as determined on a case by case basis.

Licensed Contractors

The Asset Manager will engage three licensed Nevada contractors from the pool of qualified contractor on a rotational basis. The contractors will be charged with providing a property evaluation and estimates and bids to the Asset Manager. The Asset Manager will choose the best bid and award the contract delineating expectation and timelines for the completion of rehabilitation. Once the rehabilitation is completed the Asset Manager or designee will inspect the property and proceed with making payment. Contractors must secure any required construction permits.

Certified Public Accountant

The nonprofit will employ a Certified Public Accountant directly reporting to the Home Means Nevada Board. The Certified Public Accountant will be responsible for monthly financial reporting, bookkeeping functions, treasury functions, annual financial audits and compliance reviews on program transactions to ensure compliance with federal and state statutes and regulations, compliance with IRS requirements and program guidelines as adopted by the board.

Mortgage Servicers

For the loans that are retained by the program, the mortgage servicer will perform all loan servicing functions and in case of defaults will be responsible for all collection and foreclosure actions. All of the loans serviced will have an impound account by which the servicer will pay for HOA, Insurance, and property taxes and be reimbursed from the homeowner each month in the mortgage payment. As much as possible direct withdrawals should be set up for mortgage payments.

Insurance Agents

The homes retained will have impounded accounts, and each home will need to be insured at all times. The program will carry insurance on all properties being rehabilitated and listed for sale until the home closes and ownership changes.

Attorneys

The lead attorney for the program will also serve as the board attorney and will directly report to the board to advise the board on legal matters. The attorney will be also responsible for ensuring all loan documents such as purchase agreements with the seller of the notes, deed of trust and promissory note with the borrower, loan documents and contracts, foreclosures actions, and any other legal matters before the program are correctly drawn. The Attorney will be also charged with ensuring legal compliance reviews twice a year on transactions made by the program.

"When people are safe in their homes, they are free to pursue their dreams for a brighter economic future for themselves and their families." - George Pataki

Title Companies

Title companies will be engaged for two purposes: 1) to perform a title search during the due diligence period; and 2) to act as the closing agent. The title search is performed to ensure that there are no liens or encumbrances on the property and to confirm clean title to the property. The title search will at a minimum include the following:

- All legal documents are present and enforceable
- Title conditions
- All liens on the property
- Second mortgage, third, other liens (if reported)

CLOSING COSTS

The closing costs for loans refinanced and sold will be paid by the program. The following will be included in the closing costs: recording fees, transfer tax, escrow fees, interest, realtor commissions, impound account payments, title search, credit report fee, appraisal fee, processing fee and any liens agreed to be paid by the program.

PROGRAM REPORTING

Weekly

Performance Measures- Metrics such as daily/weekly volumes, homeowner contacts, number of homes refinanced, number of homeowners offered transitional assistance, status of files under review, number of files underwritten, number of homes for sale, budget vs. actual expenses, bank reports, etc.

Monthly

Source and use of funds- The Asset Manager will provide monthly source and use of funds to the board duly certified and checked by the Certified Public Accountant who will also provide along with this report a bank reconciliation statement for the preceding month.

Quarterly

Activity and Quality Control Reports- Presented to the board by the Asset Manager in conjunction with the Program Attorney and Certified Public Accountant. The areas of review will include:

- Loan purchase files that are full and complete with required due diligence documentation and contain approvals such as due diligence results, board approvals, executed purchase and sale agreements.
- Accuracy of property disposition, verification that contact with the homeowner was timely, underwriting guidelines to qualifying buyers was followed correctly, qualified homeowner files are complete, properties sales have been in accordance with program guidelines and the files are complete.

Financial Statements – A quarterly financial report outlining the source and use of funds will be provided to the board along with any extraordinary items or exceptions being highlighted for discussion.

Report on statutory and regulatory compliance – A report by the Asset Manager, CPA, and Attorney certifying that the program was in compliance with federal and state statutory and regulatory requirements.

PROGRAM CONTROLS AND FRAUD PREVENTION

Quarterly Reports & Program Metrics - There will be comprehensive program reporting and analysis of program performance each quarter. This report will be presented to the board within 30 days of the end of each quarter.

Annual Audits –The Home Retention Program will obtain a comprehensive annual audit of its compliance and financials for each calendar year by a Certified Public Accountant. The audit report will be submitted to the board by March 31th of the following year. The audit will be also available on the Home Means Nevada website. The purpose of the audit is to reduce the risk and costs associated with non compliance of laws and regulations and also to ensure that the financial controls of the program are operating efficiently and effectively.

Internal Controls – There will be adequate internal controls imbedded in program processes defined by its policies and procedures so that the program integrity is not compromised. These internal controls will be subject to regular testing and will be modified when required.

Eligible Use of Program Funds - The program will clearly define the eligible use of program dollars, such as loan acquisition, property taxes, bankruptcy costs, foreclosure costs, utility costs, supplier and service contracts, transition costs, eviction, etc.

Complaint Resolution - All applicant complaints, no matter the subject, will be reviewed and processed by the board. A decision or response will be communicated to the aggrieved party within 30 days of receipt of the compliant.

Appeals - If a stakeholder is not satisfied with the decision made by the program, an appeal may be filed within 30 days of the decision. The board will have 30 days to investigate the matter and a decision from the board will be sent to the aggrieved stakeholder within 30 days from the time the investigation is completed.

RESERVES

Loan Loss - The program will have a loan loss reserve of $5 million throughout the term of the program. The loan loss reserve will be used to cover any losses the program might encounter due to error in pricing, market decline, interest rate fluctuation or losses on home sales.

Cost Overrun Reserves – There is a 2.5% built in reserve for cost overruns in the program.

> **"Government should reduce mortgage principal when it exceeds 110 percent of the home value."**
> -Martin S. Feldstein
>
> *Former Chairman of the Council of Economic Advisers under President Reagan*

PROJECTED FINANCIALS

PROJECTED PROGRAM FINANCIALS

Below is the program cash flow statement which shows the source and use of resources available to the program.

FUND FLOW ANALYSIS (in millions)	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	Total
SOURCE OF FUNDS									
Funds Available	149	80	48	32	25	22	21	21	
Principal Payments	1	2	2	3	3	3	4	4	22
Interest Payments	4	6	6	7	7	7	7	6	49
Sales of Notes	120	69	41	28	22	19	18	211	527
USE OF FUNDS									
Notes Purchased	140	80	48	32	25	22	21		369
Administrative Costs	1	1	1	1	1	1	1	1	8
Contractual Payments	43	28	17	11	9	8	7	52	174
Reserves	9								
Net Cash Flow	**80**	**48**	**32**	**25**	**22**	**21**	**21**	**188**	
ASSETS (on a cash basis)									
Notes Backed by Properties	80	126	153	172	186	199	211		
Reserves	9	9	9	9	9	9	9	9	
Cash In Hand	80	48	32	25	22	21	21	189	
Total	**169**	**183**	**195**	**206**	**217**	**229**	**240**	**197**	
LIABILITIES (on a cash basis)									
Investment Payable to General Fund	149	149	149	149	149	149	149	149	
Total	**169**	**183**	**195**	**206**	**217**	**229**	**240**	**197**	
Retained Earnings	**20**	**34**	**46**	**57**	**68**	**79**	**91**	**48**	

The fund flow statement calculations are based on the following assumptions:

- The Program will be able to buy notes at a 30% discount to market value
- There are no sales of homes retained to depositories or hedge funds
- The housing values remain stable
- There is a $5 million loan loss reserve and a $3.87 million contingency reserve
- Sales of Notes– Notes acquired by the program that will be listed and sold
- Notes Backed by Properties– Homes retained by the program
- All of the mortgages held by the program will be sold at the culmination of the program.
- It is anticipated that at the culmination of the program there may be significant uncommitted funds generated by this program which will be given to the State of Nevada General Fund after all obligations are paid.

COST ANALYSIS

Program Staff									
Program Director	118,800	118,800	118,800	118,800	118,800	118,800	118,800	118,800	950,400
Executive Assistant/ Board Secretary	79,200	79,200	79,200	79,200	79,200	79,200	79,200	79,200	633,600
Management Analyst	92,400	92,400	92,400	92,400	92,400	92,400	92,400	92,400	739,200
Auditor	92,400	92,400	92,400	92,400	92,400	92,400	92,400	92,400	739,200
Operating Costs									
Rent	96,000	96,000	96,000	96,000	96,000	96,000	96,000	96,000	768,000
Supplies	75,000	75,000	75,000	75,000	75,000	75,000	75,000	75,000	600,000
Telecommunications	48,000	48,000	48,000	48,000	48,000	48,000	48,000	48,000	384,000
Certified Public Accountant	120,000	120,000	120,000	120,000	120,000	120,000	120,000	120,000	960,000
Travel	72,000	72,000	72,000	72,000	72,000	72,000	72,000	72,000	576,000
Marketing	300,000	172,301	102,882	69,567	53,913	47,038	44,510	-	790,211
Others	48,000	48,000	48,000	48,000	48,000	48,000	48,000	48,000	384,000
Equipment and Technology	30,000	15,000	30,000	15,000	30,000	15,000	30,000	15,000	180,000
Total Administrative Costs	$1,171,800	$1,029,101	$974,682	$926,367	$925,713	$903,838	$916,310	$856,800	$7,704,611
Service Provider Expenses									
Asset Manager Fees	2,000,000	1,148,675	686,622	464,610	360,167	314,237	297,320	2,108,652	7,380,283
Legal Fees	1,500,000	861,506	514,966	348,458	270,125	235,678	222,990	1,581,489	5,535,213
Selling Costs	7,200,000	6,892,048	4,119,730	2,787,661	2,161,001	1,885,424	1,783,922	12,651,914	39,481,701
Broker Price Opinions	40,000	22,973	13,732	9,292	7,203	6,285	5,946	-	105,433
Property Manage-ment Services	180,000	155,071	92,594	62,610	48,522	42,334	40,059	474,127	1,095,317
Housing Counseling Agencies	500,000	287,169	171,655	116,153	90,042	78,559	74,330	527,163	1,845,071
Insurance Policies	200,000	114,867	68,662	46,461	36,017	31,424	29,732	351,442	878,605
Transition Assistance	1,200,000	689,205	411,973	278,766	216,100	188,542	178,392	2,108,652	5,271,631
Mortgage Servicers	200,000	114,867	68,662	46,461	36,017	31,424	29,732	-	527,163
Closing Costs / Title Company	6,000,000	3,446,024	2,059,865	1,393,831	1,080,500	942,712	891,961	10,543,262	26,358,155
Others	400,000	229,735	137,324	92,922	72,033	62,847	59,464	421,730	1,476,057
Rehabilitation Costs/ Contractors	24,000,000	13,784,097	8,239,460	5,575,323	4,322,002	3,770,848	3,567,843	21,086,524	84,346,096
Total Program Costs	**43,420,000**	**27,746,238**	**16,567,509**	**11,202,627**	**8,681,775**	**7,574,621**	**7,167,562**	**51,820,290**	**174,180,624**

The cost analysis is based on the following assumptions:

- Costs are assumed to be flat during the tenure of the program.
- There are adequate reserves to take care of any cost escalations.

- Employee benefits and employer costs are calculated at 32% of gross wages.
- Any costs not budgeted will have to be managed within line items
- Rehabilitation cost is assumed at an average of 20% of each foreclosed home.

COST ESTIMATES	
Asset Manager	$ 2,000 per file
Legal Fees	$ 1,000 per file
Sales Commissions	6% of sales price
Housing Counseling Agency Services	$1,000 per homeowner
Mortgage Servicer	.25% of outstanding loan balance
Closing Costs	2.5% of house value
Transition Assistance	$5000.00 per dislocated household
Other	$200 per property
Rehabilitation Costs / Contractors	Average of 20%

EXIT STRATEGY

This program is designed to wind down by June 2021 with the last purchase being completed by June 2020. The mortgages retained by the program will be sold as soon as possible in early 2021 and the proceeds of the sales will be returned to the State of Nevada General Fund.

PROGRAM ENHANCEMENTS

Enhancement 1

The program will develop guidelines wherein depositories and hedge funds could purchase the refinanced loans made to qualified homeowners. The participating depository acquires the notes and the servicing of the refinanced mortgages. The Home Retention Program retains a 20% ownership and the depositories/ hedge funds the remaining 80%. In the event that the loan defaults, the program takes a 20% loss first before the servicing entity incurs any loss. Under this arrangement, the depository risk of purchasing this type of loan is reduced with the same return. Additionally, the program is able to replenish funds with capacity to absorb any such losses.

Without sales to depository institutions or hedge funds, this program could assist 2,636 homeowners. However, if the refinanced loans are sold to investors to replenish funding, this program could assist approximately 4,589 homeowners over the next seven years.

Enhancement 1 Illustration:

PROPERTIES ACQUIRED EACH YEAR WITH NO SALES TO DEPOSITORIES/HEDGE FUNDS									
	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	Total
# of Properties Acquired	1,000	574	343	232	180	157	148	-	2,634
# of Properties Sold	600	345	206	139	108	94	89	1,054	2,634
# of Properties Retained	400	230	137	93	72	63	59		-
PROPERTIES ACQUIRED WITH SALES TO DEPOSITORIES/HEDGE FUNDS									
	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	Total
# of Properties Acquired	1,000	1,031	814	604	456	365	315		4,587
# of Properties Sold	600	619	489	363	274	219	189	1,835	4,587
# of Properties Retained	400	413	326	242	182	146	126		-

Enhancement 2

Program funds can also be used to buy homes in a short sale arrangement from homeowners and once these sales close, the program will turn around and offer a new loan at better terms to the seller as long as they meet the underwriting requirements of the Home Retention Program.

Enhancement 3

According to 2012 Q3 Core Logic report detailing negative net equity, 57% percent or 315,834 mortgaged properties in Nevada are underwater accounting for $8.6 billion in negative equity. Out of these mortgages there are approximately 52, 000 mortgages that are delinquent and underwater. The program could reach out to GSE's, Wall Street and mortgage servicers to buy a pool of Nevada underwater mortgages that are not delinquent. There are 263,834 of such mortgages.

Enhancement 4

Once this program is launched and has succeeded, there will be many opportunities to leverage the success of the program and obtain additional capital from depositories, the federal government and hedge funds in order to assist thousands of additional homeowners.

FREQUENTLY ASKED QUESTIONS

How will the department know what notes the department will be able to purchase from FHA?
We expect the FHA will provide us a pool of loans for evaluation with pertinent information such as number of notes available, delinquency status, lien position, original loan to value, original balance, current balance, property address, occupancy status, hardship information, etc. Once we have this information, the Asset Manager for the program will perform due diligence on the individual notes within the pool. The due diligence will consists of; Broker Price Opinions, occupied or vacant analysis, second or other liens, HOA dues, any pending constructions defects claims or lawsuits, insurance claims or clue report findings, any estimates of rehabilitation costs, and any exceptions to program guidelines.

Further, due diligence review will ensure that each loan was made in conformity with lending laws in existence at the time it was originated, each loan is enforceable (i.e. the collateral documents are properly executed), each loan is secured by an enforceable and properly recorded first mortgage lien, the documents and servicing reports of each loan support the information supplied by the seller (e.g. original principal balance, interest rate, origination date, payment history, etc.). In addition, we will verify that all proper consumer disclosures were made to the borrower at origination and those disclosures were prepared in conformity with legal requirements in effect at the time of origination. The value of the secured property and the trend of neighborhood property values will also be verified to determine if its fits within The Home Retention Program economic model.

Will the department have specific information on the location, zip codes, or what part of a city, etc. the notes that are available for purchase are from?
Yes, all of that information will be obtained and will be part of our due diligence.

Will the department know the home value and the original note value of the home?
Yes, it will be a part of our due diligence.

Will the department qualify a pool of notes?
No, the Asset Manager contracted by the Home Means Nevada board will complete due diligence and will make a recommendation to the Home Means Nevada board for a final purchase decision.

Please provide the parameters that the FHA will allow the state to filter the notes and describe how specific the state can get.
Please see program parameters.

Will the state be able to confirm, with a reasonable amount of certainty that the information about the notes provided by the FHA is accurate and valid before the state

moves forward to purchase the note?
Yes, the process of loan evaluation and due diligence will ensure that each of the loans meets the program guidelines and criteria.

How will the current market value on a home be determined and how can the state validate that value? Under the Nevada Home Retention Program, will setting the current market value of a home be the state's determination or the FHA's decision? What method will the Nevada Home Retention Program use to determine the current value of a home (i.e. broker price opinion, appraisal, etc.)?
This program will rely on Brokers Price Opinion and Desk Appraisals customarily performed in the industry.

Is the department factoring in rehabilitation and carrying costs in the Nevada Home Retention Program to ensure these costs will not exceed the current value of the home? What kind of program controls will be put in place?
Yes, our economic model considers those associated costs as well. However, while we cannot predict the exact rehabilitation costs of a single unit, we will have adequate reserves for rehabilitation, to ensure that as a pool, these costs are adequately covered.

What is the percentage of overhead for the Nevada Home Retention Program? What is the expected return on investment on the loans to cover those costs and losses to the fund?
Based on preliminary calculations, the administrative overhead over the lifespan of the program will be 5%. The anticipated return on the investment of the mortgage settlement funds is 100%.

How will second mortgages, liens, and/or home equity lines of credit be handled for notes that are purchased from FHA under the Nevada Home Retention Program? Is there a cost to negotiate and remove and/or discount these liabilities?
During due diligence we will determine the costs of such liens and price the pool accordingly. If there are second liens, we have several options for resolution, including modifying the loan, negotiating a settlement of the second note, creating a subordination arrangement with the second, or foreclose to eliminate the second mortgage.

What happens if a homeowner defaults after the home has been refinanced under the Nevada Home Retention Program? Are there statistics to tell us how many of these to expect? What has the department found to be average default rate for Nevada homeowners? Has the department completed the research and factored defaults into the costs for the Nevada Home Retention Program?

There currently is no program that addresses the underwater portion of a mortgage in such a significant way. Comparisons of re-default under existing assistance programs would not provide any meaningful conclusions from which to answer that question. Not only does the program eliminate the underwater portion of the loan, program underwriting guidelines will ensure the refinanced note will fall within affordability guidelines. For example, the payment on a $ 200,000.00 mortgage at 5% interest rate is $ 1,074.00 principal and interest. When capitalized on an annual basis at 31% of gross income, household income required to support the affordability of the loan equals $ 41,574.19 per annum. The average household median income in Nevada during 2011 was $48,927.00.

We believe that if a homeowner wants to retain their home, under this program they will have a very fair shot to do so. However, for owners who do not want to retain their home or don't meet underwriting criteria, the program will move expediously to provide them transitional assistance. The property will then be turned over to a qualified home occupant. If a homeowner re-defaults, the program will move to foreclose and market the home to new owner/occupants to stabilize the neighborhood.

Why does the department believe that refinancing 700-800 homes per year will have a noticeable impact on the estimated "shadow inventory" of 52,000 homes?

We do not ascertain that this program will completely resolve the issue of shadow inventory. However, doing nothing is not an option that will help Nevada. Our program makes a difference one homeowner at a time and ultimately will prove to be a model that other states can emulate to stimulate the housing market/economy. We see this program as attacking the systemic risk posed by the shadow inventory in the marketplace, thereby returning investor and consumer confidence in the housing market.

While the initial estimate is 700-800 in the first year, the program proposes a mechanism to replenish funding to the program by selling refinanced notes to state chartered banks, credit unions, and national servicers. In addition, payments of principal and interest made on refinanced loans will also come back into the program. These returns will allow us to assist even more homeowners in need.

The department mentioned in many cases the state would move for a "quick foreclosure" when the program is not able to negotiate a refinance. Why can the state move toward a quick foreclosure when the banks are not able to?

In instances where the home acquired through the program is not occupied by the owner, we would commence the foreclosure process immediately. For a number of strategic reasons banks often times choose to delay commencing a foreclosure allowing the occupants to live rent free. This program will identify and differentiate between an owner occupant and a tenant and will take the appropriate action. This is what was meant by moving toward a "quick foreclosure." We cannot control the timing of legal foreclosure proceedings, but we can move to commence the process as soon as the law allows. From a procedural standpoint, we believe the proposed changes to AB 284 would also expedite the process.

What would the nonprofit board composition be? How will it be managed? The department's testimony included some answers to the questions relating to the nonprofit board, however it does not appear that there is any legislative representation on the board.

The proposed nonprofit board will consists of:

- Permanent Chair-Director or Deputy Director of Programs from the Department of Business and Industry
- Permanent Vice-Chair-Nevada Housing Division Administrator
- Financial Lending Institution representative-appointed by the Legislative Commission from a list of three names submitted by Financial Institutions Division (3 year term with one additional term at the discretion of the Commission)
- Mortgage Lending representative-appointed by the Legislative Commission from a list of three names submitted by Mortgage Lending Division (3 year term with one additional term at the discretion of the Commission)
- Real Estate representative-appointed by the Governor from a list of three names submitted by Business and Industry. (3 year term with one additional term at the discretion of the Governor)

All Board Members serve at the pleasure of their appointing authority and shall hold office until the expiration of the term for which he/she was appointed and until his successor has been appointed and shall have qualified, or until his/her prior resignation or removal.

In specific detail, what is the department's exit strategy for the Nevada Home Retention Program? If the funds dedicated to the program have requirements attached for their use, what are the state's options?

This program is anticipated to wind down in 2021. The investment made into this program will be returned to the program, and furthermore, the economic model shows that this program can potentially make a profit on it activities. If market conditions change prior to the planned date of closure, we will present alternatives to the Governor and Legislature on what to do with the remaining funds and program.

Has the department met with banks, realtors, and other potential interested industry professionals? What role will these stakeholders have in each step of the process?

We are in regular discussions with the stakeholders and key industry partners on the development of the program to ensure that it meets the needs of our residents. All of the professional service functions will be outsourced to the private sector.

How does the department expect to reach out to homeowners? Many homeowners are experiencing fatigue and no longer respond to offers of assistance. What measures will the program take to get the homeowners' attention and interest?

This mortgage refinance program will NOT be an opt-in program. Individual homeowners will be contacted by a certified housing counseling agency contracted by Home Means Nevada through multiple points of contacts including; mail, telephone and personal visits by housing counselors and possibly realtors. Aggressive outreach efforts will be made to promote the opportunity for preservation and homeowners who are able and willing accept this assistance will be helped.

Based on the information you are aware of at this time, please provide projected timelines, the major milestones, and ultimately when the department expects to implement the recommended program?

B & I is currently working to finalize the federal 501(C))(3) exemption for Home Means Nevada, Inc., a state affiliated non-profit established to administer this program. We will need to negotiate an acceptable term sheet with the US Treasury to secure funding for approximately $100 million dollars. Any agreement with the US Treasury would require the state to contribute $49 million in mortgage settlement funds (state participating contribution). The Treasury funding leveraged with the Nevada mortgage settlement funding of $49 million will enable us to have a meaningful program of home retention in Nevada. As soon as the legislature has approved the transfer of the funds and the Home Retention Program, we can start the implementation of the program. In the interim, the program design and development would proceed concurrently as resources allow.

Please describe the involvement and/or role the U.S. Department of Housing and Urban Development (HUD), the Federal Housing Administration (FHA) and the U.S. Treasury will have on the recommended Nevada Home Retention Program.

The State needed to identify a pool of mortgages geographically based in Nevada. The only federal agency at this time that is willing and capable of identifying geographic pools is HUD/FHA. They would work with their principle servicers to define a pool of delinquent/underwater mortgages in Nevada. The US Treasury would provide program funds to a State-affiliated non-profit agency pending mutual approval of a term sheet with the State. The Treasury, through its agencies, administers funds to other housing recovery programs such as HARP, HARP 2.0 and The Hardest Hit Funds. The Treasury has regular oversight over these programs and their funding.

As indicated in your presentation the program would not be administered by the

state, but would instead be administered by a non-profit 501(c)3 organization that would need to be affiliated with the state. Please describe the department's plan to set up the non-profit organization, and the anticipated timeframe to have the non-profit organization and its membership in place. Additionally, please describe the anticipated role and responsibilities the non-profit organization will provide. Finally, please provide the FHA's definition of how the non-profit organization must be affiliated with the State of Nevada as it relates to the recommended Nevada Home Retention Program.

The Department of Business and Industry has set up a non-profit entity pursuant to NRS 232.520 (4), which authorizes the creation of a nonprofit entity in accordance to NRS 82 to meet the goals and objectives of the department. The entity called "Home Means Nevada" was established as the Governor's designated organization to address housing recovery programs for Nevada. Last year, Home Means Nevada held a housing event that assisted more than 3,500 homeowners in negotiating mortgage workouts with lenders. The event was widely attended by national banks, credit unions, mortgage servicers, home counselors, etc. Home Means Nevada will house the Nevada Home Retention Program. At this time, we are revising the bylaws to meet the needs of the Home Retention Program and applying for federal 501(C) (3) status. The existing board will be reformatted to include representation from the key sectors interlinked with program goals. This non-profit agency will achieve optimal staffing levels and where possible contract with Nevada licensed professionals to carry out the functions of the program. The board of directors of the non-profit would oversee the program.

Please provide any requirements from HUD, FHA and the U.S. Treasury for the state to implement the recommended program.

We are still working with our federal partners on these matters. FHA can only sell a pool of mortgages directly to a State or a State-affiliated non- profit agency. We would need a letter from the AG stating that the non-profit is closely affiliated with the State and that the State would provide oversight. The US Treasury needs to know that the State will commit these mortgage settlement funds to the program before it will commit its additional funding. Typically, the Treasury works closely with these types of programs and conducts periodic audits of the programs. We continue work on developing this program further to put together all of its key components.

Please provide any prohibitions on the use of the $100 million (i.e., cannot use for abandoned homes). When do you anticipate the $100 million will be formally made available to the state, and based upon your discussions with federal officials, do you anticipate any unattainable hurdles to receive this funding?

We will purchase a pool of mortgages that are both underwater and delinquent. The non-profit will contract with experts to examine the properties in the pool to determine owner occupation. From what we have been told, the federal Treasury funds must be used to purchase mortgages that still have homeowners living in those homes. Only the State mortgage settlement funds can be used to purchase the homes that the homeowner might have abandoned (but has not been foreclosed on). We are looking for more clarification from the federal government on those issues as our goal is to keep people in their homes by refinancing them into a loan amortized over 30 years at current interest rates at current market value. We don't anticipate any hurdles other than examining and executing the large amounts of paperwork that may be required and negotiating the term sheet. Our Congressional delegation has been helpful and some staff has attended our meetings.

Will any VA home loans be purchased under this program?
The program will work with any entity that can provide loans that meet the program's criteria. However, in order to kick-off the program, the FHA was the best place to begin since they can identify and sell Nevada mortgages directly to us in a discounted pool. Once this program is up and running it will look to purchase qualifying Nevada mortgages from other sources including the VA.

Will standard underwriting procedures be put into place? If so, what underwriting procedures will be used?
We have a working group of experts that have been meeting to help develop the Home Retention Program. This includes our Commissioner of Financial Institutions and Commissioner of our Mortgage Lending Division, among others. We will be working with state chartered banks and servicers to outline the underwriting guidelines which make this program successful while ensuring that they are meaningful to homeowner retention initiatives. We will need to acquire those underwriting procedures from those experts in the fields of banking and mortgage lending.

Could the sequester that is required under the 2011 Budget Control Act, if implemented, affect this program and the $100 million funding from the federal government? If so, please describe the impact.
We do not have any indication that existing Treasury Funds allocated to housing programs will be impacted. It will be a "timing" issue but we don't envision our program being fully funded until the Legislature and Governor approve the state budget in June. After that, the term sheet should call for the federal funds to be transferred into this program.

None of the programs have been made available to homeowners that have made efforts to stay current on their mortgage payments. Why isn't the department providing assistance for those homeowners?
We met with Oregon Senator Merkley's staff while in Washington. His team has several programs they are planning to bring forward, including one that, if passed, will allow anyone cur-

rent on their mortgage to refinance their home at a 4% interest rate. Other programs are being discussed. NAHAC, a certified entity by the Nevada Housing Division assists hardest hit qualifiers and people who need temporary mortgage payment assistance. However, there are no programs in Nevada that resolve the issue of underwater mortgages. The Nevada Home Retention Program's main objective is to retain as many homeowners in their home as possible.

The department indicated it is estimated that potentially 25 percent of the estimated 52,000 homes with severely underwater delinquent mortgages that will migrate to foreclosure may benefit from the proposed program. This equates to roughly 13,000 homes. How and who determined this estimate?

This is very difficult to quantify. There are very few models to look at. Hedge funds have purchased large pools of delinquent, underwater mortgages from the government that are not geographically specific. Those hedge funds use their own mortgage servicing companies to reach out to the owners of the notes they buy. However, their motives and programs are different than ours. Those firms are trying to make a profit for their investors. They try to help the homeowner refinance but do not eliminate their entire underwater portion. In fact, they make more money from foreclosure. Those programs say they are able to keep approximately 15% of people in their homes. Our program is non-profit and truly for the homeowner.   Our emphasis is working with the homeowner to eliminate their negative equity and refinance them into loan that will allow them to start building equity. With a team of housing counselors and extensive outreach plan, we feel we can make   a much better effort at keeping an owner in their home. However, some owners may be prohibited from achieving that goal due to bankruptcy, tax liens, loss of income, etc. Those owners have already stopped making payments and are not in a position to keep their home. They have chosen not to leave knowing it may take up to three years before their lender chooses to foreclose. In these instances, our program would move to foreclose as quickly as possible, make necessary repairs on the property, contract with realtors to market the homes, and sell them only to owner-occupants and first time homebuyers. We need to put homeowners and homebuyers back into a position where they can begin to build equity in their homes, take care of their property, and be an asset to their neighborhood. It is our goal to get 25% or more of existing homeowners to participate in this program. For those who can't or won't, we will make sure those homes go to qualified home owner/occupants.

As for the "700" mortgages we identified, this is an estimate of the number of mortgages for a typical tract home that we might be able to purchase with our total funds of $149 million and still have funds left to properly administer the program. However, as the program moves forward, is should generate additional funds that can be used to purchase additional mortgages from a variety of note-holders.