NORTH CAROLINA
HOUSING
FINANCE
AGENCY

June 9, 2010

Ms. Sharon Lundstrom, Director
Servicing & Loss Mitigation
Department of Housing & Urban Development
National Servicing Center
301 NW 6th St, Suite 200
Oklahoma City, OK 73102

RE: Request for Variance Regarding Mortgagee Letters 2009-29 and 2009-35
FHA ID 3535010010

RE: Your Loan No. 2082

Dear Ms. Lundstrom,

North Carolina Housing Finance Agency ("North Carolina Housing") is seeking a variance from the requirements of Mortgagee Letters 2009-29 and 2009-35 (the "Mortgagee Letters").

North Carolina Housing is North Carolina's housing finance agency created pursuant to Chapter 122-A of the North Carolina General Statutes. In that capacity, North Carolina Housing purchases loans to qualified first-time homebuyers from participating lenders throughout the State. Following these loan purchases, North Carolina Housing becomes the Holder of the related Note and the loans are serviced by Servicing companies under contractual agreements with North Carolina Housing. As of May 1, 2010, North Carolina Housing's loan portfolio consisted of approximately 16,000 loans with an outstanding principal balance of approximately $1.37 billion.

A significant portion of the loans in our portfolio (47%) carry FHA mortgage insurance. In order to service such loans, North Carolina Housing is an FHA approved lender and servicer.

As with most housing finance agencies, North Carolina Housing funds its mortgage purchase activity through the sale of mortgage revenue bonds under Section 143 of the Internal Revenue Code (the "code" and the regulations promulgated thereunder). These loans are purchased by North Carolina Housing subject to and in accordance with the requirements of the Code and the bond indentures under which the tax-exempt mortgage revenue bonds are issued.

Bonds issued under the indentures are structured and marketed based on financial assumptions regarding amortization of the underlying loans. Blanket changes to interest rates and loan

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terms, of the sort required under Mortgagee Letters, may adversely affect North Carolina Housing's ability to successfully operate our first-time homebuyer lending program because such changes are likely to reduce North Carolina Housing's cash flow under the bond portfolio. This may lead to several unintended consequences. In the worst case, if cash flows on existing loans are sufficiently reduced, North Carolina Housing's ability to pay bond debt as it becomes due may be threatened.

At a minimum, North Carolina Housing's ability to issue new bonds to support the purchase of FHA-insured loans at beneficial interest rates to first-time homebuyers will be negatively impacted. The assessment of the financial strength of North Carolina Housing's mortgage portfolio by rating agencies depends on our ability to meet cash flow and rating agency requirements. Blanket changes to the terms of the FHA loans, such as interest rate and term modifications, adversely affect that assessment, which in turn could adversely impact our bond ratings and impact the marketability of North Carolina Housing's bonds.

Although North Carolina Housing is concerned about the unintended consequences on our first-time homebuyer mortgage loan portfolio from a blanket application of Mortgagee Letters, we do recognize and support the goals behind the initiative. In support of those goals, North Carolina Housing will consider, on a case-by-case basis and as an adjunct to other forbearance options, loan modifications to borrowers under FHA-insured loan programs. The approach will be similar to the provisions of Mortgagee Letters, except that the interest rate will not be reduced. The borrower would qualify for modification by amortizing the loan back to the original 30 year term and applying the principal reduction afforded by the FHA-HAMP program. We expect that these modifications will generally result in a reduction of the borrower's monthly payment. This approach has the benefit of being consistent with the goals of the Mortgagee Letters without unreasonably impacting North Carolina Housing's first-time homeowner loan program.

For the reasons specified above, North Carolina Housing requests that it receive a variance of the requirements of Mortgagee Letters.

Please contact the undersigned if you need any additional information or have any questions. I may be reached by email at cbsmith@nchfa.com or (919) 877-5637

Sincerely,

Charlene B Smith

Charlene B. Smith
Manager, Loan Servicing

Cc: Elizabeth I. Rozakis,
Chief Financial Officer

U.S. Department of Housing and Urban Development
National Servicing Center, HUFM
301 NW 6th Street, Room 200
Oklahoma City, OK 73102

http://www.hud.gov/offices/hsg/sfh/nsc/nschome.cfm

July 9, 2010

Ms. Charlene B. Smith
Manager, Loan Servicing
North Carolina Housing Finance Agency
3508 Bush Street
Raleigh, NC 27609

Dear Ms. Smith:

SUBJECT: Variance Request to Mortgagee Letter 2009-35 – Loan Modification Option and Mortgagee Letter 2009-23 – FHA HAMP Option

The purpose of this letter is to acknowledge and provide guidance as to your letter of June 9, 2010; whereas, North Carolina Housing Finance Agency (NCHFA) is requesting a Variance to the requirements of Mortgagee Letters 2009-35 and 2009-23 when reviewing the Loan Modification Option and FHA HAMP Option under HUD's Loss Mitigation Program.

NCHFA has stated that the funds utilized in its mortgage purchase activity are through the sale of mortgage revenue bonds under Section 143 of the Internal Revenue Code. That these loans are purchased by NCHFA subject to and in accordance with the requirements of the Code and the bond indentures under which the tax-exempt mortgage revenue bonds are issued. That these Bonds are issued under the indentures are structured and marketed based on financial assumptions regarding amortization of the underlying loans. That Blanket changes to interest rates and loan terms required under Mortgagee Letters 2009-35 and 2009-23 may adversely affect NCHFA's ability to successfully operate their first-time homebuyer lending program as such changes are likely to reduce NCHFA's cash flow under the bond portfolio, adversely affect the assessment, which in turn could adversely impact NCHFA's bond ratings and impact the marketability NCHFA's bonds.

Although NCHFA has stated that in support, it will consider, on a case-by-case basis and as an adjunct to other forbearance options, Loan Modifications/FHA-HAMP to borrowers under FHA-insured loan programs. In doing so, NCHFA will conduct Loan Modifications/FHA-HAMP by amortizing the loan back to the original 30 year term, with the exception that that the interest rate will not be reduced.

Based upon NCHFA's letter, the National Servicing Center (NSC) recommends NCHFA and their FHA-Approved Sub-Servicers to document their Asset Servicing File for each delinquent asset whereas HUD's Loan Modification Option and/or FHA-HAMP Option could not be utilized due to the asset being bond funded by the State of North Carolina. Please be sure to document clearly as to NCHFA decision process.

Should you have any questions, please don't hesitate to contact Debra Beacham at (405) 609-8452 or Debbie.K.Beacham@hud.gov.

Sincerely,

Sharon Lundstrom

Sharon A. Lundstrom
Director, National Servicing Center

Cc:
Scott Byce, QAD Director – Atlanta