2008 Innovations Awards Program
APPLICATION

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ID # (assigned by CSG): 08-S-29LA

Please provide the following information, adding space as necessary:

State: Louisiana

Assign Program Category (applicant): Health & Human Services: Housing (Use list at end of
application)

1. Program Name
   LHFA Insurance Offset Program
2. Administering Agency
   Louisiana Housing Finance Agency
3. Contact Person (Name and Title)
   Brenda Evans, Program Administrator
   Jeff DeGraff, Public Information Director
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7. Web site Address
   www.lhfa.state.la.us
8. Please provide a two-sentence description of the program.
   The Insurance Offset Program is a subsidized mortgage program that internally generates a
   source of funds to cover the extraordinary increases in homeowner’s insurance costs for low-
   income homebuyers.
9. How long has this program been operational (month and year)? Note: the program must be
   between 9 months and 5 years old on March 1, 2008 to be considered.
   The program was created and implemented in October of 2006.
10. Why was the program created? What problem[s] or issue[s] was it designed to address?
    In the wake of hurricanes Katrina and Rita, there was a substantial increase in the cost of
    home insurance in the state of Louisiana. The LHFA recognized that this increase would
    make the possibility of homeownership even more questionable for lower income families.
    To address this issue, the agency instituted the Insurance Offset Program to assist
    homeowners in making their premium payments.
11. Describe the specific activities and operations of the program in chronological order.
The agency used HOME funds to create a subsidy to produce the stated mortgage rate – which initially was 4.5%. Normally, mortgage interest payments would be used to fund two payment streams: the first 50 basis points are paid to the Servicer to service the mortgage and to make payments to the mortgage guarantor. The balance of the interest payment (4.0%) belongs to the agency and is typically pledged to the repayment of bonds. Under the Insurance Offset Program, the agency has agreed to split its interest payment so that half (2.0%) is pledged to the bonds and half (2.0%) of the interest is put into each borrower’s escrow account to assist with their insurance payments. The portion of the agency’s interest, which provides funds for the borrower’s escrow account, reduces the agency’s future surpluses in the transaction but supplies a tangible benefit to low income borrowers.

12. Why is the program a new and creative approach or method?
   The hurricanes of 2005 left many unique situations and problems in their wake. The massive payouts from insurance companies led to increases in insurance costs that had not been seen before. This program was developed to address the needs of low-income buyers in this new environment. Overall affordability is a key issue; in that the majority of these persons are “house poor” – that is statistically low-income families spend a greater portion of their income for basic housing needs than other income groups. The LHFA felt that it was part of its mission to provide assistance for this targeted group.

13. What were the program’s start-up costs? (Provide details about specific purchases for this program, staffing needs and other financial expenditures, as well as existing materials, technology and staff already in place.)
   There were no specific start-up costs; however, the agency staff had to work closely with its financial advisors, bond counsel and master servicer to insure that the escrow payments are properly disclosed, tracked and documented.

14. What are the program’s annual operational costs?
   Minimal, if any

15. How is the program funded?
   The LHFA funds the Insurance Offset Program by using the agency’s volume cap authority and HOME funds.

16. Did this program require the passage of legislation, executive order or regulations? If YES, please indicate the citation number.
   This program did not require the passage of any legislation, executive order or regulation.

17. What equipment, technology and software are used to operate and administer this program?
   The LHFA tracks the program using Housing Development Software

18. To the best of your knowledge, did this program originate in your state? If YES, please indicate the innovator’s name, present address, telephone number and e-mail address.
   This program was originally crafted by LHFA President Milton Bailey. He can be contacted via the LHFA at: 2415 Quail Drive, Baton Rouge, LA 70808; (888)454-2001; mbailey@lhfa.state.la.us

19. Are you aware of similar programs in other states? If YES, which ones and how does this program differ?
   No

20. Has the program been fully implemented? If NO, what actions remain to be taken?
   Yes, this program has been fully implemented, and successfully repeated in the agency’s 2007A, 2007B and 2007C programs.

21. Briefly evaluate (pro and con) the program’s effectiveness in addressing the defined problem[s] or issue[s]. Provide tangible examples.
   The Insurance Offset Program has been very successful and well received. In fact, when new bond funded programs become available, these are the first funds that are utilized. The program is structured in such a way as not to provide a permanent subsidy to borrowers, but
for a period of 7 years with the possibility to renew. This allows sufficient time for insurance rates to adjust and for families with the greatest need to adjust to homeownership.

22. How has the program grown and/or changed since its inception?
   The program is being monitored, but there have not been any major changes made as of yet. As insurance rates begin to stabilize, the feasibility/necessity of the program will be evaluated.

23. What limitations or obstacles might other states expect to encounter if they attempt to adopt this program?
   Other states looking to implement a similar program should be aware of their HOME/CDBG funds and volume cap. If they are limited, they may not be able to adopt this program.