

Ohio Homeowner Assistance, LLC

**Financial Statements and
Independent Auditor's Report**

December 31, 2013

Ohio Homeowner Assistance, LLC

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Independent Auditor's Report

To the Board of Directors
Ohio Homeowner Assistance, LLC

We have audited the accompanying financial statements of Ohio Homeowner Assistance, LLC, which comprise the balance sheet as of December 31, 2013, and the related statements of operations, member's equity and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ohio Homeowner Assistance, LLC as of December 31, 2013, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Affiliated Organization

As discussed in Note 1 to the financial statements, Ohio Homeowner Assistance, LLC is an affiliated organization of Ohio Capital Corporation for Housing and is under common control. Our opinion is not modified with respect to that matter.

CohnReznick LLP

Bethesda, Maryland
April 29, 2014

Ohio Homeowner Assistance, LLC

Balance Sheet
December 31, 2013

Assets

Assets	
Cash and cash equivalents	<u>\$ 14,291,889</u>
Total assets	<u><u>\$ 14,291,889</u></u>

Liabilities and Member's Equity

Liabilities	
Accounts payable	\$ 2,279,477
Deferred revenue	<u>12,012,412</u>
Total liabilities	<u>14,291,889</u>
Member's equity	<u>-</u>
Total liabilities and member's equity	<u><u>\$ 14,291,889</u></u>

Ohio Homeowner Assistance, LLC

Statement of Operations Year Ended December 31, 2013

Revenue		
Administrative expense reimbursement		\$ 13,158,582
Program income (Note 2)		
Rescue payment	\$ 50,714,677	
Mortgage payment assistance	31,235,896	
Modification with contribution	11,741,783	
Lien elimination	6,725,061	
Homeownership retention assistance	3,632,650	
Homeowner stabilization	4,235,000	
Transition assistance	110,000	<u>108,395,067</u>
Total revenue		<u><u>\$ 121,553,649</u></u>
Expenses		
OHA administrative expenses		
Salaries and personnel	\$ 172,944	
Professional services	96,600	
Bank charges	24,574	
Building, lease, equipment and technology	18,911	
Office supplies, postage and delivery, subscriptions	17,440	
Information technology and telecommunications	545	
Miscellaneous expenses	281	<u>\$ 331,295</u>
OHFA administrative expenses		
Housing counseling agency	6,783,350	
Salaries and personnel	2,369,721	
Recording and title fees	1,320,057	
Marketing and public relations	1,140,236	
Professional services	778,796	
Information technology and telecommunications	421,004	
Building, lease, equipment and technology	7,622	
Office supplies, postage, training, travel, county recorder fees and homeowner contributions	<u>6,501</u>	<u>12,827,287</u>
Total administrative expenses		13,158,582
Program expenses (Note 2)		<u>108,395,067</u>
Total expenses		<u><u>\$ 121,553,649</u></u>
Net income		<u><u>\$ -</u></u>

See Notes to Financial Statements.

Ohio Homeowner Assistance, LLC

**Statement of Member's Equity
Year Ended December 31, 2013**

Balance, December 31, 2013

\$ -

Ohio Homeowner Assistance, LLC

**Statement of Cash Flows
Year Ended December 31, 2013**

Cash flows from operating activities	
Net income	\$ -
Adjustments to reconcile net income to net cash used in operating activities:	
Increase (decrease) in liabilities:	
Deferred revenue	(34,086,869)
Accounts payable	<u>509,123</u>
Net cash used in operating activities	<u>(33,577,746)</u>
Net decrease in cash and cash equivalents	(33,577,746)
Cash and cash equivalents, beginning of period	<u>47,869,635</u>
Cash and cash equivalents, end of period	<u>\$ 14,291,889</u>

See Notes to Financial Statements.

Ohio Homeowner Assistance, LLC

Notes to Financial Statements December 31, 2013

Note 1 - Organization and summary of significant accounting policies

Organization

Ohio Homeowner Assistance, LLC ("OHA" or the "Company"), was formed as a limited liability company under the laws of the state of Ohio on July 14, 2010 with Ohio Capital Corporation for Housing as its sole member. OHA was formed to (i) serve for the State of Ohio, as an eligible entity, as defined in the United States Department of the Treasury's ("Treasury") Housing Finance Agency Participation Agreement ("Participation Agreement") for the Hardest Hit Fund ("HHF") program with the Ohio Housing Finance Agency ("OHFA"), (ii) receive funds from Treasury through its designated depository financial institution with respect to the HHF program and (iii) disburse HHF funds in accordance with the direction of OHFA. The HHF program was effective August 3, 2010, the date the Participation Agreement was entered into with Treasury. OHA does not earn any fee or net income when serving as the eligible entity to OHFA for the HHF program as all funds are strictly payable to participants designated by OHFA or to reimburse OHA for any administrative costs incurred in administering the program that have been approved by OHFA.

OHFA was created as a corporate body which has a legal existence separate from the Government of Ohio but which is an instrumentality of Ohio, created to effectuate certain public purposes. Treasury has allocated approximately \$570 million to the state of Ohio to be administered by OHFA with OHA acting primarily as OHFA's fiscal agent through the life of the program which ends on December 31, 2017. The financial statements of OHFA are prepared under separate cover in accordance with accounting principles generally accepted in the United States of America.

Ohio Capital Corporation for Housing ("Ohio Capital"), a nonprofit corporation, is an affiliated organization that is required to consolidate OHA in its financial statements due to the control it exercises over the entity. Consolidated financial statements of Ohio Capital Corporation for Housing and Subsidiaries and Affiliates are prepared under separate cover in accordance with accounting principles generally accepted in the United States of America.

As of December 31, 2013, there are seven types of HHF programs administered by OHFA with OHA serving as the eligible entity:

1) Rescue Payment Assistance

This program provides funds to servicers on behalf of homeowners to bring current delinquent mortgage payments, escrow shortages and corporate advances to third parties. The goal is to prevent avoidable foreclosure and stabilize neighborhoods by helping delinquent homeowners who have experienced a qualifying hardship achieve sustainable homeownership.

2) Mortgage Payment Assistance

Under this program, no payments are required by the homeowner. This program provides funds to servicers on behalf of eligible unemployed or underemployed homeowners by assisting with their full mortgage payments for up to 18 months while

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Notes to Financial Statements December 31, 2013

they search for a new job and/or participate in job training programs. The goal is to prevent avoidable foreclosure and stabilize neighborhoods by helping unemployed and underemployed homeowners make on-time, monthly payments on their mortgages.

3) Lien Elimination Assistance

This program provides assistance to homeowners in which the lien holder or lien holders agree to accept up to \$25,000 in return for extinguishing the first lien and attempt to extinguish any second liens on the property. The goal is to prevent avoidable foreclosure and stabilize neighborhoods by helping homeowners who have experienced a qualifying hardship achieve a long-term, permanent and affordable housing solution

4) Homeownership Retention Assistance

This program provides funds to servicers, taxing authorities and associations on behalf of homeowners to extinguish or reinstate a homeowner's subordinate mortgage lien(s) or cover ancillary property-related expenses. The goal is to prevent avoidable foreclosure and stabilize neighborhoods by helping homeowners who have experienced a qualifying hardship achieve a long-term and affordable housing solution.

5) Transition Assistance

This program assists homeowners whose current mortgage payment exceeds the affordable monthly payment and/or who must relocate to gain meaningful employment. It requires the lender or servicer to consider short sale or deed-in-lieu options and waive any rights to a deficiency judgment. The goal is to prevent avoidable foreclosure and stabilize neighborhoods by helping homeowners achieve an orderly exit from their home.

6) Modification with Contribution Assistance

This program provides funds to servicers on behalf of homeowners to facilitate a permanent affordable loan modification which must result in a more affordable monthly payment. The goal is to prevent avoidable foreclosure and stabilize neighborhoods by helping homeowners who have experienced a qualifying hardship achieve more affordable mortgage payments long-term.

7) Homeowner Stabilization Assistance

This program was established on March 22, 2013 and provides assistance to homeowners who qualify for a Program Eligible Outcome, as defined in the program. Through the program, OHFA will partner with non-profit entities and purchase delinquent mortgage loans at a discount through the U.S. Department of Housing and Urban Development Federal Housing Agency Distressed Asset Stabilization Program Neighborhood Stabilization Outcome sub-pool auction sales. The goal is to keep families in their homes or provide for an orderly disposition and transition to new housing, which will help stabilize neighborhoods and housing markets.

Financial assistance provided under the HHF program is non-interest bearing and is forgiven in an equal amount each year for five years, until December 31, 2017, at which time the entire amount is forgiven. Payment is only required in the event there are

Ohio Homeowner Assistance, LLC

Notes to Financial Statements December 31, 2013

proceeds from a sale or refinance, which is considered remote, therefore no notes receivable are shown on the balance sheet.

As part of the Homeowner Stabilization Assistance program there may be funds deposited by the non-profit entity that OHA and OHFA have partnered with into an escrow account based on terms provided in the program.

As of December 31, 2011, the program maximum given to an eligible homeowner was \$15,000. Beginning January 1, 2012, for all new applicants as well as homeowners who signed a mortgage modification agreement during 2012, the maximum amount of assistance is \$25,000 provided under all programs and up to \$35,000 for homeowners who participate in two or more programs, with the exception of the Modification with Contribution Assistance, Transition Assistance and Homeowner Stabilization Assistance programs. The Modification with Contribution Assistance and Homeowner Stabilization Assistance programs provide a maximum assistance of \$35,000, and the Transition Assistance program provides a maximum assistance of \$7,500.

In instances where a homeowner was required to pay more than the maximum amount given to them at closing, the homeowner had the option to pay the balance required. Once the homeowner pays the additional amount required, OHA is instructed by OHFA to pay the portion due to the servicer for each homeowner. Prior to January 1, 2012, some homeowners contributed a portion of their monthly mortgage payment and these funds are held in the Recycled Funds account. In addition, some homeowners have repaid all or a portion of their assistance and these funds are held in the same Recycled Funds account. Treasury has directed OHFA and OHA to use the Recycled Funds to assist homeowners only after all other program funds have been exhausted. During 2013, \$3,263,973 was released from the Recycled account to the Operating account for the portion of monthly mortgage payments contributed by homeowners prior to January 1, 2012 as directed by Treasury to be used for the Mortgage Payment Assistance program. As disclosed in Note 2, these homeowner funds were not included in the capital draws received from the U.S. Government for the programs described above.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income taxes

OHA is a single member limited liability company and since it is a disregarded entity for income tax purposes, OHA is included in the tax return of its sole member, Ohio Capital. Ohio Capital is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Ohio Capital is subject to income taxes on revenue generated from other sources unrelated to its exempt purpose. Ohio Capital is required to file and does file tax returns

Ohio Homeowner Assistance, LLC

Notes to Financial Statements December 31, 2013

with the Internal Revenue Service and other taxing authorities. Both Ohio Capital and OHA did not identify any uncertain tax positions that require either recognition or disclosure in the financial statements. Income tax returns filed by Ohio Capital, which includes OHA, are subject to examination by the Internal Revenue Service for a period of three years. While no income tax returns are currently being examined by the Internal Revenue Service, tax years since 2010 remain open.

Cash and cash equivalents

Cash and cash equivalents include a money market account held by OHA. Funds held in the money market account are primarily invested in high-quality short-term instruments having original maturities at their dates of acquisition of three months or less.

Revenue and expenditures

Revenue and expenditures are identified as those activities that are related to the HHF program. Revenue consists of program receipts utilized to pay for the authorized program administrative expenses and other direct program expenses incurred by OHA and OHFA. The program funds received from Treasury are recorded as deferred revenue and recognized into revenue as payments are disbursed to various participants of the HHF program as specified and identified by OHFA. Funds received from Treasury for administrative expense are recorded as deferred revenue when received. Administrative expense reimbursement income is recognized as revenue when the expenses are incurred by OHA and OHFA.

Expenditures consist of OHA's and OHFA's program administrative expenditures and other direct program expenditures. A significant portion of the capital draws received from the Treasury is utilized to fund OHFA's expenditures to provide financial assistance to homeowners to prevent them from entering foreclosure as described in Note 2. These expenditures are disclosed as program expenses on the statement of operations.

During the year ended December 31, 2013, OHA received capital draws in the amount of \$79,440,000 under the HHF program for transferring assets to various eligible homeowner recipients described in the programs above and recognized \$104,160,067 as operating revenue on the statement of operations for reimbursement of disbursements designated by OHFA and administered by OHA for the same amount.

During the year ended December 31, 2013, OHA received capital draws in the amount of \$15,000,000 under the Homeowner Stabilization Assistance program for transferring assets to various recipients through qualified non-profit entities. During the year ended December 31, 2013, OHA transferred \$15,000,000 to a non-profit entity of which \$4,235,000 has been committed to benefit eligible homeowners with eligible outcomes as defined in the Participation Agreement. As of December 31, 2013, the non-profit entity has the remaining uncommitted funds of \$10,765,000 available to be disbursed to eligible homeowners.

During the year ended December 31, 2013, OHA received capital draws for administrative costs including interest income in the amount of \$6,596,331 under the HHF program and recognized \$13,158,582 as operating revenue on the statement of operations for

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Notes to Financial Statements December 31, 2013

reimbursement of expenditures incurred by OHA and OHFA for the same amount. OHFA's administrative costs include payments made to housing counseling agencies that were utilized to identify eligible homeowners.

Note 2 - Deferred revenue

As part of the HHF program and having been designated as an eligible entity by OHFA, OHA primarily receives funds from the U.S. Department of the Treasury and agrees to transfer those assets to various entities on behalf of eligible homeowners for program and administrative expenses as identified and specified by OHFA. As of December 31, 2013, \$12,012,412 is payable to various entities on behalf of homeowners for program and administrative expenses either specified or to be specified by OHFA and is therefore included as deferred revenue on the balance sheet. OHA maintains cash equal to their deferred revenue and accounts payable balance.

During the year ended December 31, 2013, the following activity took place for deferred revenue:

	Deferred revenue balance as of January 1, 2013	Capital draws (Year ended December 31, 2013)	Other funds received held for others	Other disbursements	Revenue recognized and disbursements made to homeowners (Year ended December 31, 2013)	Deferred revenue balance as of December 31, 2013
Rescue Payment Assistance	\$ 19,174,913	\$ 37,000,000	\$ -	\$ -	\$ (50,714,677)	\$ 5,460,236
Mortgage Payment Assistance	11,228,093	24,000,000	-	-	(31,235,896)	3,992,197
Lien Elimination Assistance	1,277,315	6,440,000	-	-	(6,725,061)	992,254
Homeownership Retention Assistance	3,000,000	1,000,000	-	-	(3,632,650)	367,350
Homeowner Stabilization Assistance	-	15,000,000	-	(10,765,000)	(4,235,000)	-
Transition Assistance	445,000	-	-	-	(110,000)	335,000
Modification with Contribution Assistance	857,345	11,000,000	-	-	(11,741,783)	115,562
Total program activity	35,982,666	94,440,000	-	(10,765,000)	(108,395,067)	11,262,599
Recycled funds	3,463,592	-	368,637	(3,263,973)	-	568,256
Homeowner contributions	86,950	-	1,696,277	(1,605,492)	-	177,735
Administrative expenses	6,566,073	6,560,000	36,331	-	(13,158,582)	3,822
Total	\$ 46,099,281	\$ 101,000,000	\$ 2,101,245	\$(15,634,465)	\$ (121,553,649)	\$ 12,012,412

Ohio Homeowner Assistance, LLC

Notes to Financial Statements December 31, 2013

Note 3 - Cumulative program expenditures

The following table summarizes the cumulative activity for the HHF program since its inception through December 31, 2013.

	Capital draws (Inception through December 31, 2013)	Other funds received held for others	Other disbursements	Disbursements (Inception through December 31, 2013)	Disbursements payable for accrued expenses, as of December 31, 2013	Cash balance held for program and administrative expenditures as of December 31, 2013
Rescue Payment Assistance	\$ 114,000,000	\$ -	\$ -	\$ (108,539,764)	\$ -	\$ 5,460,236
Mortgage Payment Assistance	78,000,000	-	-	(74,007,803)	-	3,992,197
Lien Elimination Assistance	11,940,000	-	-	(10,947,746)	-	992,254
Homeownership Retention Assistance	4,000,000	-	-	(3,632,650)	-	367,350
Homeowner Stabilization Assistance	15,000,000	-	(10,765,000)	(4,235,000)	-	-
Transition Assistance	500,000	-	-	(165,000)	-	335,000
Modification with Contribution Assistance	12,000,000	-	-	(11,884,438)	-	115,562
Total program activity	235,440,000	-	(10,765,000)	(213,412,401)	-	11,262,599
Recycled funds	-	3,832,229	-	(3,263,973)	-	568,256
Homeowner contributions	-	177,735	-	-	-	177,735
Administrative expenses	34,660,000	131,216	-	(34,787,394)	2,279,477	2,283,299
Total	<u>\$ 270,100,000</u>	<u>\$ 4,141,180</u>	<u>\$ (10,765,000)</u>	<u>\$ (251,463,768)</u>	<u>\$ 2,279,477</u>	<u>\$ 14,291,889</u>

Note 4 - Concentration of credit risk

OHA maintains its cash and cash equivalents in four accounts in one bank. The Federal Deposit Insurance Corporation ("FDIC") provides insurance for these accounts up to a maximum of \$250,000. At times, the balances in these accounts exceeded the federal insurance limits; however, OHA has not experienced any losses with respect to its bank balances in excess of government provided insurance. As of December 31, 2013, the Company's cash and cash equivalents balance exceeds the FDIC insurance limit, and the uninsured balance is \$13,472,996, however, all accounts are placed by the bank in pooled collateral accounts. The collateral accounts require that accounts containing public funds be securitized to the full deposit value that exceeds the FDIC insurance.

Note 5 - Subsequent events

Events that occur after the balance sheet date but before the financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the balance sheet date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the balance sheet date require disclosure in the accompanying notes. Management evaluated the activity of OHA through April 29, 2014 (the date the financial statements were available to be issued) and concluded that no subsequent events have occurred that would require recognition in the financial statements. However, the following paragraph describes events that have occurred effective January 1, 2014, requiring disclosure to the financial statements.

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Notes to Financial Statements December 31, 2013

Effective January 1, 2014, the Neighborhood Initiative Program ("NIP") was initiated. Under this program, strategically targeted residential demolition in designated areas within the state of Ohio will be funded by partnering with Land Banks or an entity that has signed a cooperative agreement with the Land Bank. The goal of this program is to stabilize property values by removing and greening vacant and abandoned properties in an effort to prevent future foreclosures for existing homeowners. The maximum assistance provided under this program is \$25,000 per property to be demolished. Financial assistance provided under this program is non-interest bearing and secured by the property. The loan will be forgiven at the end of three years.