

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

OHIO HOMEOWNER ASSISTANCE, LLC

DECEMBER 31, 2011

Ohio Homeowner Assistance, LLC

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Ohio Homeowner Assistance, LLC

We have audited the accompanying balance sheet of Ohio Homeowner Assistance, LLC as of December 31, 2011, and the related statements of operations, member's equity and cash flows for the period August 3, 2010 (date of program inception) through December 31, 2011. These financial statements are the responsibility of the Company's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in note 1, Ohio Homeowner Assistance, LLC is an affiliated organization of Ohio Capital Corporation for Housing and is under common control.

In our opinion, the financial statements referred to above presents fairly, in all material respects, the financial position of Ohio Homeowner Assistance, LLC as of December 31, 2011, and the results of its operations, changes in member's equity and cash flows for the period August 3, 2010 (date of program inception) through December 31, 2011, in conformity with accounting principles generally accepted in the United States of America.

Reznick Group, P.C.

Bethesda, Maryland
April 30, 2012

Ohio Homeowner Assistance, LLC

BALANCE SHEET

December 31, 2011

ASSETS

ASSETS

| | |
|--|-----------------------------|
| Cash and cash equivalents | \$ 24,515,224 |
| Notes receivable, net of allowance of \$34,167,938 | <u>-</u> |
| TOTAL ASSETS | <u><u>\$ 24,515,224</u></u> |

LIABILITIES AND MEMBER'S EQUITY

LIABILITIES

| | |
|-----------------------|----------------------|
| Funds held for others | \$ <u>24,515,224</u> |
| TOTAL LIABILITIES | <u>24,515,224</u> |

MEMBER'S EQUITY

| | |
|---------------------------------------|-----------------------------|
| TOTAL LIABILITIES AND MEMBER'S EQUITY | <u><u>-</u></u> |
| | <u><u>\$ 24,515,224</u></u> |

See notes to financial statements

Ohio Homeowner Assistance, LLC

STATEMENT OF OPERATIONS

For the period August 3, 2010 (date of program inception)
through December 31, 2011

| | |
|--|------------------------|
| REVENUE | |
| Administrative expense reimbursement | <u>\$ 244,434</u> |
| TOTAL REVENUE | <u>244,434</u> |
| EXPENSES | |
| Administrative expenses | |
| Salaries and personnel | 92,543 |
| Building, lease, equipment and technology | 70,159 |
| Professional services | 57,688 |
| Bank charges | 17,514 |
| Contingency | 3,027 |
| Office supplies, postage and delivery, subscriptions | 2,721 |
| Miscellaneous expenses | <u>782</u> |
| TOTAL EXPENSES | <u>244,434</u> |
| NET INCOME | <u><u>\$ -</u></u> |

See notes to financial statements

Ohio Homeowner Assistance, LLC

STATEMENT OF MEMBER'S EQUITY

For the period August 3, 2010 (date of program inception)
through December 31, 2011

| | |
|----------------------------|-------------|
| Balance, December 31, 2011 | <u>\$ -</u> |
|----------------------------|-------------|

See notes to financial statements

Ohio Homeowner Assistance, LLC

STATEMENT OF CASH FLOWS

For the period August 3, 2010 (date of program inception)
through December 31, 2011

| | |
|---|-----------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Net income | \$ - |
| Adjustments to reconcile net income to net cash provided by operating activities: | |
| Increase in allowance for doubtful accounts | 34,167,938 |
| Increase (decrease) in liabilities: | |
| Funds received - funds held for others | 68,960,023 |
| Funds disbursed - funds held for others | <u>(44,444,799)</u> |
| Net cash provided by operating activities | <u>58,683,162</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Increase in notes receivable | <u>(34,167,938)</u> |
| Net cash used in investing activities | <u>(34,167,938)</u> |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 24,515,224 |
| Cash and cash equivalents, beginning of period | <u>-</u> |
| Cash and cash equivalents, end of period | <u><u>\$ 24,515,224</u></u> |

See notes to financial statements

Ohio Homeowner Assistance, LLC

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES

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.

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.

Fiscal Period

These financial statements encompass transactions that have occurred for the period August 3, 2010 (date of program inception) through December 31, 2011.

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

Ohio Homeowner Assistance, LLC

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2011

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 files its tax returns along with 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; however, Ohio Capital did not have any such revenue during the period. Ohio Capital is required to file and does file tax returns 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.

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.

Notes Receivable and Allowance for Doubtful Accounts

Notes receivable consist of financial assistance provided to homeowners eligible under the HHF program. The notes are non-interest bearing and forgiven in an equal amount each year for five years, until December 31, 2017, at which time the entire amount is forgiven. Accordingly, an allowance for doubtful accounts is maintained for the entire notes receivable balance since repayment is not required per the HHF program guidelines, except in the case of a sale or refinance by the homeowner, the chances of which are considered to be remote.

Revenue and Expenditures

Revenue and expenditures are identified as those activities that are related to the HHF program. Revenue primarily consists of program receipts utilized to pay for the authorized program administrative expenses and other direct program expenses incurred by OHA.

Expenditures primarily consist of OHA's program administrative expenditures and other direct program expenditures. As of December 31, 2011, OHA received capital draws for administrative costs including interest income in the amount of \$11,651,720 under the HHF

Ohio Homeowner Assistance, LLC

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2011

program and recognized \$244,434 as operating revenue on the statement of operations for reimbursement of expenditures incurred by OHA for the same amount. 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. OHFA incurred administrative expenses for the HHF program in the amount of \$10,032,427 which includes payments made to housing counseling agencies that were utilized to identify eligible homeowners.

Recent Accounting Pronouncements

During 2010, the Financial Accounting Standards Board (FASB) issued an update to the guidance related to disclosures for receivables. The new guidance requires additional information about the credit quality of financing receivables in the disclosures to financial statements including, but not limited to, nonaccrual and past due accounts, the allowance for credit losses, impaired loans, credit quality and account modifications. The adoption of this accounting guidance did not have a significant impact on OHA's financial statements.

NOTE 2 - FUNDS HELD FOR OTHERS - HHF PROGRAM

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 recipients as identified and specified by OHFA. As of December 31, 2011, \$24,515,224 is payable to various recipients either specified or to be specified by OHFA and is included in funds held for others on the balance sheet. OHA also maintains a cash balance for the same amount as of December 31, 2011. 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.

There are five types of HHF programs administered by OHFA as of December 31, 2011:

1) Rescue Payment Assistance

This program provides funds to servicers on behalf of homeowners who are delinquent on their mortgage payments due to a delay in receiving unemployment benefits, insufficient income, or other unforeseen circumstances, by bringing them current on delinquent mortgage obligations.

Ohio Homeowner Assistance, LLC

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2011

2) Partial Mortgage Payment Assistance

This program supports unemployed homeowners by assisting with their mortgage payments for up to 18 months while they search for a new job and/or participate in job training programs.

3) Mortgage Modification with Principal Reduction

This program provides assistance to homeowners who do not qualify for existing loan modification programs due to severe negative equity.

4) Short Refinance Program

This program provides funds to servicers on behalf of homeowners who wish to refinance to a new mortgage loan in order to lower their monthly payment.

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.

As of December 31, 2011, the program maximum given to an eligible homeowner was \$15,000. 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, the title company wires the funds to OHA and OHA is instructed by OHFA to pay the portion due to the servicer for each homeowner. These homeowner funds were not included in the capital draws received from the U.S. Government for the programs described above.

In addition, in some cases, as part of the Partial Mortgage Payment Assistance program described above, the homeowner contributes the balance due on the mortgage payment if the homeowner is only eligible to be covered partially for what is due to the servicer. OHA pays to the servicer the entire mortgage payment from the funds available under the mortgage payment assistance program and then transfers the funds collected from the homeowner via the special servicer to the program as recycled funds. This special servicer was appointed by OHFA and approved by Treasury to receive homeowners' partial payments under the Partial

Ohio Homeowner Assistance, LLC

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2011

Mortgage Payment Assistance program. These recycled funds were not included in the capital draws received from the U.S. Government for the programs described above.

During the period from the date of program inception through December 31, 2011, the following activity took place for funds held for others:

| | Capital Draws (Inception through December 31, 2011) | Other funds received held for others | Disbursements (Inception through December 31, 2011) | Funds held for others balance at December 31, 2011 |
|--|---|--|---|---|
| Rescue Payment Assistance | \$ 33,000,000 | \$ - | \$ (21,419,130) | \$ 11,580,870 |
| Partial Mortgage Payment Assistance ** | 19,000,000 | - | (12,123,468) | 6,876,532 |
| Mortgage Modification with Principal Reduction ** | 1,500,000 | - | (610,340) | 889,660 |
| Short Refinance | - | - | - | - |
| Transition Assistance | 500,000 | - | (15,000) | 485,000 |
| Recycled funds | - | 3,253,274 | - | 3,253,274 |
| Homeowner contributions | - | 55,029 | - | 55,029 |
| Administrative expenses | 11,651,720 | - | (10,276,861) | 1,374,859 |
| Total | <u>\$ 65,651,720</u> | <u>\$ 3,308,303</u> | <u>\$ (44,444,799)</u> | <u>\$ 24,515,224</u> |

* Includes bank interest income earned on funds held for others in the amount of \$51,720.

** Program names and/or eligibility requirements have changed effective January 1, 2012, as described in note 5.

NOTE 3 - NOTES RECEIVABLE

As part of the HHF program and having been designated as an eligible entity by OHFA, OHA receives funds from the U.S. Department of the Treasury and agrees to transfer those assets to various recipients as identified and specified by OHFA. During the year ended December 31, 2011, \$34,167,938 has been disbursed to various participants of HHF specified by OHFA. The disbursements made to the various participants are forgivable over the earlier of 5 years or through 2017. As notes receivable are not expected to be collected from the various participants an allowance has been set up for the entire amount disbursed. OHA obtains no benefit from these loans disbursed to the participants and any repayments received are recycled into the HHF program.

Ohio Homeowner Assistance, LLC

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2011

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) has provided full insurance for certain accounts and certain other accounts are covered up to \$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, 2011, the Company's cash and cash equivalents balance exceeds the FDIC insurance limit, and the uninsured balance is \$21,904,994, 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 30, 2012 (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, 2012, requiring disclosure to the financial statements.

The Partial Mortgage Payment Assistance (PMPA) program described in note 2 has been replaced by the Mortgage Payment Assistance program. Under this new program, no payments will be required by the homeowner as previously required by the PMPA program. This assistance will be available to eligible unemployed or underemployed homeowners.

In addition, the Mortgage Modification with Principal Reduction program has been renamed the Lien Elimination Assistance program.

Also, beginning January 1, 2012, for all eligible homeowners who have signed a mortgage modification agreement during 2012, the maximum amount of assistance to be provided under all programs, with the exception of the Lien Elimination Assistance program, is \$25,000. The maximum assistance for the Lien Elimination Assistance program is \$7,500.