DURHAM

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CITY OF MEDICINE

CITY OF DURHAM | NORTH CAROLINA

Date:	**February 22, 2011**
To:	**Thomas J. Bonfield, City Manager**
Through:	**Keith Chadwell, Deputy City Manager** **City Manager's Office**
From:	**Mike Barros, Director** **Department of Community Development (DCD)**
Subject:	**DCD Loan Portfolio Quarterly Report** **Second Quarter, FY2011** **October 1, 2010 through December 31, 2010**

Executive Summary

The primary objective of the DCD's management of the loan portfolio is to assist borrowers in the retention of their properties while preserving the City's investment. Since many of the DCD's programs are funded through repayment and interest income, it is important that the delinquency rate remain low and that the City's loans be repaid.

This report provides a summary of the DCD's loan portfolio for the second quarter of Fiscal Year 2011 (Q2 FY2011). Included in this report is a breakdown of the portfolio by loan type and funding source, remittance summary, delinquency rates, and foreclosure activity. Also included are accomplishments for Q2 FY2011 and goals for the next quarter.

The DCD reports the Q2 FY2011 overall delinquency rate at 15.4%, (107) loans, which is higher than the Q1 FY2011 number of (96) loans at 13.8%. The delinquency rate for Q2FY 2008 was 19.0%, for Q2FY 2009 the rate was 15.1% and for Q2FY 2010 the rate was 14.8%.

Recommendation

The DCD recommends that the City Council receive this quarterly report on the Community Development loan portfolio.

Background

The City of Durham has offered community development loans for affordable housing, homeownership, home rehabilitation, and rental housing for more than twenty years.

Categorical Summary

As of December 31, 2010, there were 816 active loans. This includes 693 amortized loans, 90 annual reduction loans that are reduced yearly on behalf of the homeowner who is in compliance with current tax payments, insurance coverage and property maintenance, twenty-seven (27) deferred Developer loans and six (6) Economic Development loans.

Table 1: Total Loan Portfolio, By Project Name, as of December 31, 2010

Project Name	# of Loans	% of Loans	Principal Balance	% of Principal Balance
Developer Loans	**81**	**9.9%**	**$17,731,604.76**	**57.5%**
HOME	*41*		*$4,716,918.03*	
CDBG	*6*		*$2,675,599.29*	
Bond	*32*		*$9,749,087.44*	
General Fund	*2*		*$590,000.00*	
Individual Loans	**515**	**63.0%**	**$8,724,033.02**	**28.3%**
HOME	*150*		*$2,823,295.70*	
CDBG	*41*		*$1,006,911.10*	
Bond	*324*		*$4,893,826.22*	
Habitat	**124**	**15.2%**	**$2,182,367.10**	**7.1%**
HOME	*73*		*$1,324,768.41*	
CDBG	*23*		*$436,442.56*	
Bond	*28*		*$421,156.13*	
Annual Reduction	**90**	**11.2%**	**$1,936,435.12**	**6.3%**
Economic Development	**6**	**0.7%**	**$255,562.63**	**0.8%**
TOTAL	**816**	**100%**	**$30,830,002.63**	**100%**

During Q2 FY2011, sixteen (16) loans were set-up with a total original principal balance of $1,129,918.09. Fiscal year-to-date, thirty-four (34) new loans have been set-up.

Table 2: Loans Set-Up for Servicing, Q2 FY2011

Project Name	# of Loans	% of Loans	Principal Balance	% of Principal Balance
Developer Loans	**0**	**0.0%**	**$0.00**	**0.0%**
HOME	0		0.00	
CDBG	0		0.00	
Bond	0		0.00	
General Fund	0		0.00	
Individual Loans	**5**	**31.3%**	**$114,431.80**	**10.1%**
HOME	3		74,431.80	
CDBG	2		40,000.00	
Bond	0		0.00	
Habitat	**2**	**12.5%**	**$40,000.00**	**3.5%**
HOME	0		0.00	
CDBG	2		40,000.00	
Bond	0		0.00	
Annual Reduction	**9**	**56.2%**	**$975,486.29**	**86.4%**
Economic Development	**0**	**0.0%**	**$0.00**	**0.0%**
TOTAL	**16**	**100%**	**$1,129,918.09**	**100%**

During Q2 2011, eleven (11) accounts were closed. Of these, two (2) reached the end of the ten year forgiveness period, four (4) were paid off, five (5) loans were closed due to foreclosure by the first mortgage. For fiscal year-to-date, twenty-five (25) accounts have been closed.

Remittance

The Q2 FY2011 remittance is detailed in Table 3. For fiscal year-to-date, borrowers remitted a total of $915,428.82. Of that total, $807,969.60 was applied as principal, $103,781.80 was applied as interest, and $3,677.42 was applied as late fees. The number of borrowers submitting late fees was 164.

Table 3: Remittance Q2 FY2011 only

Project Name	Total Remitted	% of total Remitted	Principal	% of Principal	Interest	%of Interest	Late Fee	%of Late Fee
Developer Loans	**$110,102.60**	**25.32%**	**$92,254.38**	**24.38%**	**$17,350.68**	**31.84%**	**$497.54**	**26.17%**
HOME	29,717.07		21,926.42		7,613.53		177.12	
CDBG	7,984.68		5,412.28		2,350.58		221.82	
Bond	72,400.85		64,915.68		7,386.57		98.60	
General Fund Individual Loans	**$152,227.95**	**35.01%**	**$117,262.28**	**30.99%**	**$33,562.19**	**61.59%**	**$1,403.48**	**73.83%**
HOME	42,568.27		29,105.14		13,098.84		364.29	
CDBG	13,751.81		9,087.64		4,571.09		93.08	
Bond	95,907.87		79,069.50		15,892.26		946.11	
Habitat	**$23,890.26**	**5.49%**	**$23,890.26**	**6.31%**	**$0.00**	**0.00%**	**$0.00**	
HOME	12,375.84		12,375.84		0.00		0.00	
CDBG	3,889.20		3,889.20		0.00		0.00	
Bond	7,625.22		7,625.22		0.00		0.00	
Annual Reduction	**$136,015.34**	**31.28%**	**$136,015.34**	**35.95%**	**$0.00**	**0.00%**	**$0.00**	
Economic Development	**$12,537.15**	**2.88%**	**$8,953.29**	**2.37%**	**$3,583.86**	**6.58%**	**$0.00**	
Total	**$434,773.30**	**100.00%**	**$378,375.55**	**100.00%**	**$54,496.73**	**100.00%**	**$1,901.02**	**100.00%**

Deferred Loans

As of December 31, 2010, there were 117 deferred loans accounting for 34% of the principal balance of the portfolio. There are two types of deferred loans: 1) annual reduction loans that are forgiven, and 2) loans that do not require payments until a future date.

Table 4: Deferred Loans, By Project Name, as of December 31, 2010

Project Name	# of Loans	%of loans	Principal Balance	% of Principal Balance
Developer Loans	**27**	**23.08%**	**$8,669,230.84**	**82.02%**
HOME	9		2,201,263.80	
CDBG	2		2,281,250.00	
Bond	14		3,596,717.04	
General Fund	2		590,000.00	
Annual Reduction	**90**	**76.92%**	**$1,899,983.32**	**17.98%**
TOTAL	**117**	**100%**	**$10,569,214.16**	**100%**

Note: Downtown & Commercial Revitalization and Opportunity Loans are not included above

Amortizing Loans

A majority of the portfolio, 693 loans accounting for 84.9% of the number of loans and 65% of the original amount loaned, consists of amortizing loans.

Table 5: Amortizing Loans, By Project Name, as of December 31, 2010

Project Name	# of Loans	% of Loans	Principal Balance	% of Principal Balance
Developer Loans	**54**	**7.79%**	**$9,062,373.92**	**45.30%**
HOME	32		2,515,654.23	
CDBG	4		394,349.29	
Bond	18		6,152,370.40	
General Fund				
Individual Loans	**515**	**74.31%**	**$8,760,484.82**	**43.79%**
HOME	150		2,859,747.50	
CDBG	41		1,006,911.10	
Bond	324		4,893,826.22	
Habitat	**124**	**17.89%**	**$2,182,367.10**	**10.91%**
HOME	73		1,324,768.41	
CDBG	23		436,442.56	
Bond	28		421,156.13	
TOTAL	**693**	**100%**	**$20,005,225.84**	**100%**

Note: Downtown & Commercial Revitalization and Opportunity Loans are not included above

Summary of Issues

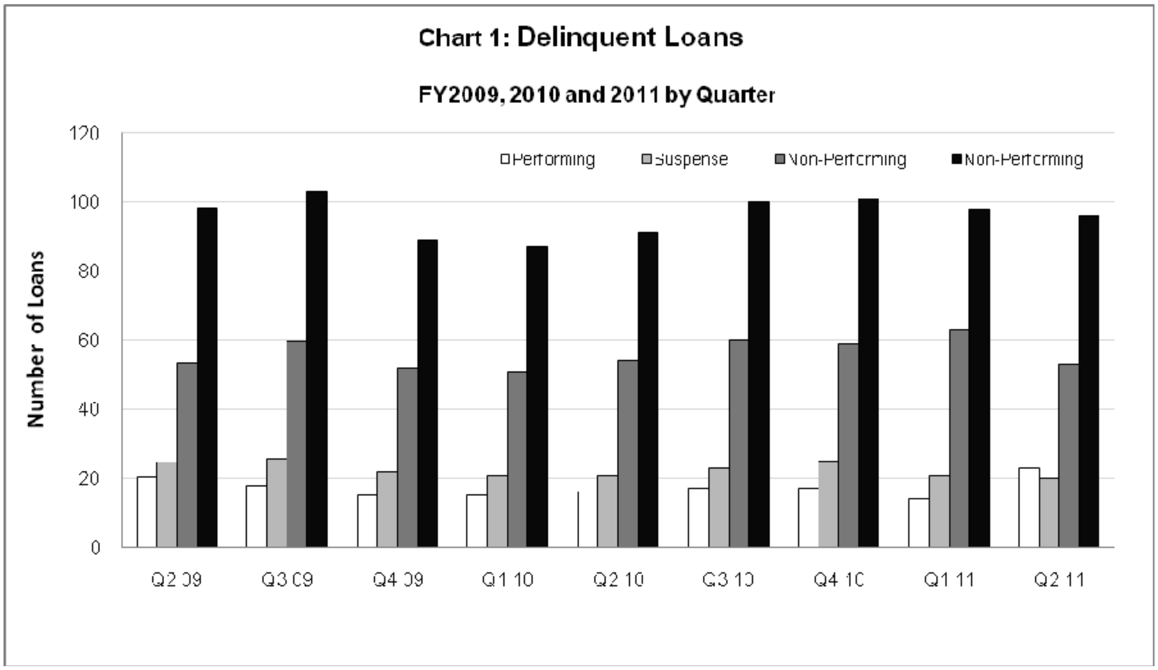
<u>Delinquencies</u>

The main focus on the loan portfolio management continues to be the delinquency rate, which is the percentage of amortizing loans that are thirty (30) days or more past due. The DCD will continue its efforts in lowering the total delinquency rate.

The DCD is working to reduce the number of loans that are ninety (90) days or more past due. Staff has been successful in contacting several seriously delinquent borrowers and is working with them. Other borrowers are continuing to call the DCD as a result of stronger delinquency letters and are working to bring their loans current. A thorough analysis of income and expenses is considered before offering an alternate payment plan to the borrower. The City's Loan Service Provider, AmeriNational, is also assisting the DCD with loan modifications for qualified delinquent borrowers.

The DCD has worked to minimize the impact of economic conditions on the loan portfolio by offering workshops to borrowers on topics such as preventing foreclosures and budgeting. Borrowers are required to attend a homebuyers' workshop through a non-profit agency such as Durham Regional Financial Center and Durham Affordable Housing Coalition before the loan closes. One-on-one financial counseling is a requirement as well before closing.

The total delinquency rate for Q2 FY2011 is higher at 15.4% (107 loans) than Q1 FY2011 which was 13.8% (97) loans and Q4 FY2010 at 14.4% (98) loans. The portfolio historically performs better in the second half of the year. During FY08 Q3 the delinquency rate declined to 15.5% from a rate of 19.0 during FY08 Q2. The rate between FY09 Q2 and FY09 Q3 declined from 15.1% to 13%. The rate of 14.8% remained stable between quarters 02 and 03 in FY10. One main reason for the decline in delinquent borrowers may be that borrowers use their tax refunds to bring their accounts current.

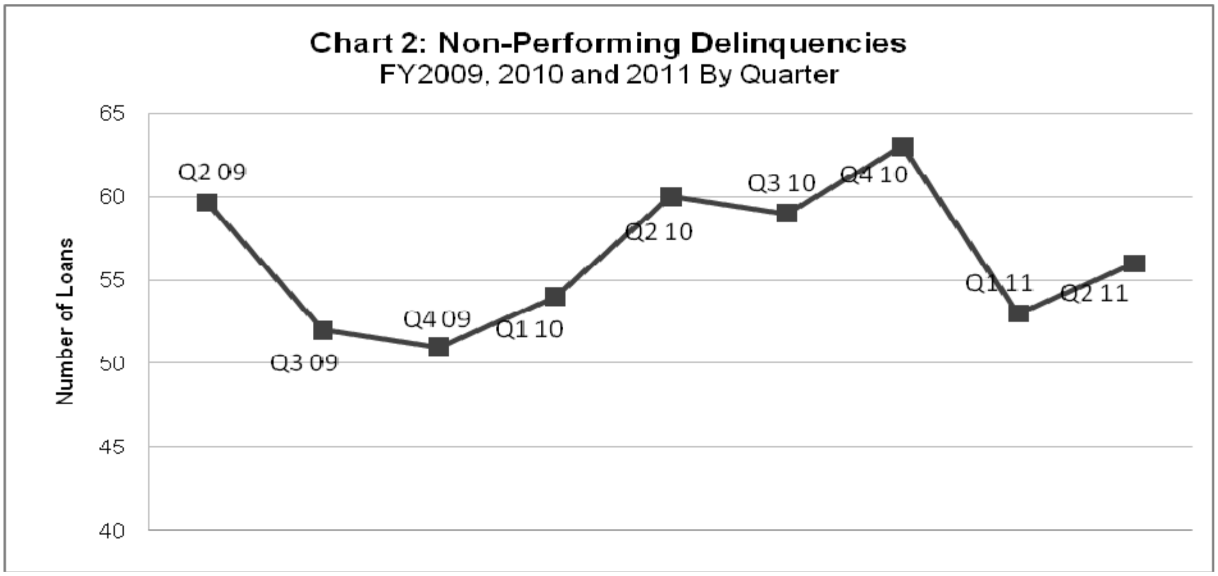


Delinquencies are grouped into three categories:

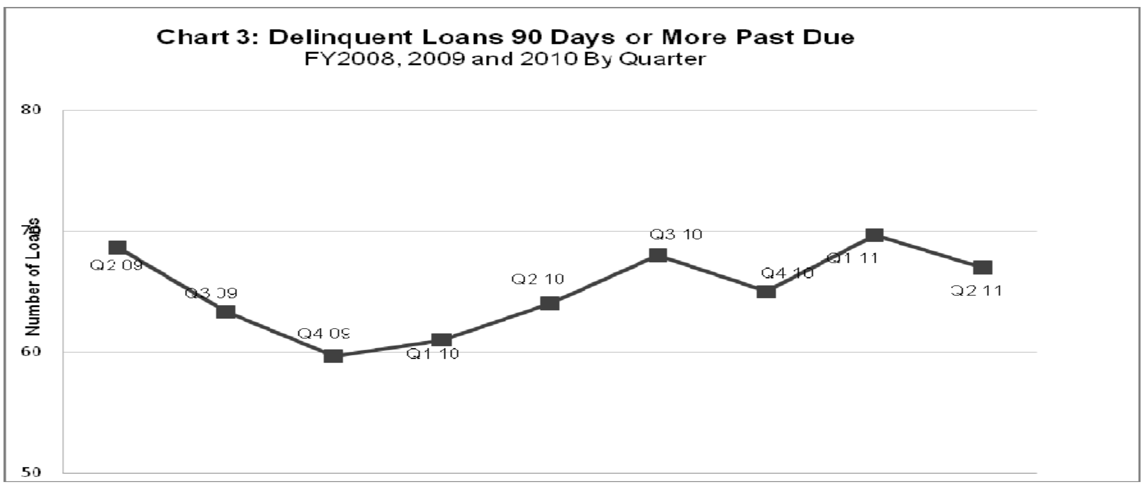
1. Performing Delinquencies: These borrowers are making timely payments on their delinquent loans or have entered into repayment plans. The performing delinquency rate in Q2 FY2011 is higher at 4.3% (30 loans), than the Q1 FY2011 rate of 3.3% (23 loans). This rate normally decreases within a short amount of time because these are the borrowers most likely to bring themselves current. Because the DCD is offering default/delinquency counseling, several seriously delinquent borrowers have begun to pay their loans, therefore increasing the percentage of timely payments.

2. Suspense Delinquencies: These borrowers have filed for protection under the Chapter 7 or 13 Bankruptcy Code and by law cannot be contacted. Suspense delinquencies increased slightly during Q2 FY2011 (3.1% or 22 loans) from Q1 FY2011's rate of 2.8% (20 loans). This increase is a contributing factor in bringing the delinquency rate up.

3. Non-Performing Delinquencies**:** These are borrowers that are more than 30 days past due and are non-responsive to our delinquency notices. During Q2 FY2011, this rate increased to 8.0% (56 loans) from 7.6% (53 loans) in Q1 FY2011, therefore, bringing the overall delinquency rate up. See Chart 2.



During Q2 FY 2011, the total number of delinquencies for loans that are 90 days or more past due was 67 loans. This rate is lower than the Q1 FY 2011 rate of 70 loans. See Chart 3 below.



During Q2 FY2011, 62.6% (67 loans) of the total delinquencies fell into this category. A number of these borrowers are currently working with default/delinquency counselors and AmeriNational. The DCD continues to work through delinquency/default counseling with these borrowers in an effort to work-out repayment plans and/or loan modifications.

The DCD continued mailing past due reminder notices. The sixty-day reminders include a referral to delinquency/default counseling with DAHC and offer the borrower an opportunity to contact the DCD for further loan counseling. Many borrowers have been responsive to the City's mailings, and these efforts have been successful in connecting borrowers with default/delinquency counseling. The DCD is considering other ways to assist borrowers more quickly and is contemplating the idea of offering in-house counseling.

Foreclosures

During Q2 FY2011, the DCD did not initiate foreclosure on any properties in the portfolio and had five (5) write-offs due to foreclosure by the first mortgage lender. Four of these loans were made to a first time homebuyer and the total principal balance written-off was

$43,922.11. One of the loans was for an annual reduction loan initiated in 2006 and five years had been written off the loan before the property was foreclosed by the first mortgage lender. Information regarding the foreclosure reached the DCD too late to offer assistance to the borrower. A balance of $31,120.00 was left to be forgiven on the loan. Before a loan is written-off, the DCD conducts a feasibility analysis and determines that whether the cost of paying off the first lien holder, rehabilitating the house, insuring the property, and marketing and selling the property would be greater than the write-off amount.

The DCD meticulously followed County tax foreclosure proceedings on a property owned by the descendants of a Barnes Avenue Optional Relocation Assistance recipient. County taxes were delinquent for 2008 and 2009. The property was sold subject to the Deed of Trust to the City of Durham. The DCD recovered the outstanding balance on the loan in the amount of $39, 997.01.

Accomplishments for Q2 FY2011

1. Borrowers are becoming more responsive to delinquency mailings when given an option to speak with someone in the DCD regarding their loan before referring them to AmeriNational Community Services for further assistance.
2. DCD staff became certified in Housing Counseling recognized by HUD.

Goals for Q2 FY2011

In the next quarter, the DCD will:
1. Continue annual compliance monitoring.
2. Continue cleaning-up payment histories that may be inaccurate.
3. Continue to monitor tax records and, when possible, monitor first mortgage loans to detect borrowers in danger of foreclosure.
4. Work to reduce delinquency rate.

Alternatives
Not applicable

Financial Impact
Not applicable

SDBE Summary
Not applicable

Cc: Diana Monaco, Assistant Director, DCD
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