DURHAM

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CITY OF MEDICINE

CITY OF DURHAM | NORTH CAROLINA

Date: **March 13, 2012**

To: **Thomas J. Bonfield, City Manager**
Through: **Keith Chadwell, Deputy City Manager**
City Manager's Office
From: **Reginald J. Johnson, Interim Director**
Department of Community Development
Subject: **DCD Loan Portfolio Semi-Annual Report**
July 1, 2011 through December 31, 2011

Executive Summary

The primary objective of the Department of Community Development's (DCD) 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 semi-annual summary of the DCD's loan portfolio for the first half of Fiscal Year 2012 (S1 FY12). 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 S1 FY12 and goals for the second half of the fiscal year.

The DCD reports the S1 FY12 overall delinquency rate for amortized loans at 15.5%, (110) loans, which is higher than the S2 FY11 number of (98) loans at 13.7%. The delinquency rate for S1 FY11 was 14.6% and for S1 FY10 the rate was 14.2%.

Recommendation

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

Background

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

Issues and Analysis

As at December 31, 2011, there were 823 active loans. This includes 709 amortized loans, 81 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-nine (29) deferred Developer loans and four (4) Economic Development loans.

Table 1: Total Loan Portfolio, By Project Name, as at December 31, 2011				
Project Name	# of Loans	% of Loans	Principal Balance	% of Principal Balance
Developer Loans	**82**	**10.0%**	**$17,248,047.18**	**57.4%**
HOME	45		4,675,815.43	
CDBG	6		2,652,971.88	
Bond	29		9,354,259.87	
General Fund	2		565,000	
Individual Loans	**511**	**62.1%**	**$8,273,871.76**	**27.6%**
HOME	158		2,824,091.77	
CDBG	42		999,382.71	
Bond	311		4,450,397.28	
Habitat	**145**	**17.6%**	**$2,481,861.22**	**8.3%**
HOME	91		1,611,764.77	
CDBG	26		479,441.20	
Bond	28		390,655.25	
Annual Reduction	**81**	**9.8%**	**$1,796,823.97**	**6.0%**
Economic Development	**4**	**0.5%**	**$222,551.67**	**0.7%**
TOTAL	**823**	**100.0%**	**$30,023,155.80**	**100.0%**

During S1 FY12, eighteen (18) loans were set-up with a total original principal balance of $405,686.46.

Table 2: Loans Set Up for Servicing for S1 FY12				
Project Name	# of Loans	% of Loans	Principal Balance	% of Principal Balance
Developer	**1**	**5.5%**	**$57,796.75**	**14.3%**
HOME	1		57,796.75	
CDBG				
Bond				
General Fund				
Individual Loans	**5**	**27.8%**	**$99,959.41**	**24.6%**
HOME	5		99,959.41	
CDBG	0			
Bond				
Habitat	**11**	**61.1%**	**$220,000.00**	**54.2%**
HOME	11		220,000.00	
CDBG	0			
Bond				
Annual Reduction	**1**	**5.6%**	**$27,930.30**	**6.9%**
Economic Development				
Total	**18**	**100.0%**	**$405,686.46**	**100.0%**

During S1 FY12, eleven (11) accounts were closed. Of these, three (3) reached the end of the ten year forgiveness period and six (6) were paid off. There were two (2) accounts closed due to foreclosure by the first mortgage.

Remittance

The remittance is detailed in Table 3. For S1 FY12, borrowers remitted a total of $656,814.52. Of that total, $545,181.08 was applied as principal, $108,688.46 was applied as interest, and $2,944.98 was applied as late fees.

Table 3: Remittance S1 FY12 as at December 31, 2011

Project Name	Total Remitted	Principal	% of Principal	Interest	% of Interest	Late Fee	% of Late Fee
Developer Loans	**$210,729.46**	**$175,353.93**	**32.2%**	**$34,876.37**	**32.1%**	**$499.16**	**16.9%**
HOME	48,158.40	34,026.42		14,101.12		30.86	
CDBG	13,713.55	9,559.49		3,784.36		369.70	
Bond	148,857.51	131,768.02		16,990.89		98.60	
General Fund Individual Loans	**$354,329.60**	**$284,337.85**	**52.2%**	**$67,545.93**	**62.1%**	**$2,445.82**	**83.1%**
HOME	81,958.93	54,839.09		26,338.78		781.06	
CDBG	35,917.68	26,176.47		9,521.55		219.66	
Bond	236,452.99	203,322.29		31,685.60		1,445.10	
Habitat	**$71,003.00**	**$71,003.00**	**13.0%**	**$0.00**	**0.0%**	**$0.00**	**0.0%**
HOME	47,085.20	47,085.20		0.00		0.00	
CDBG	8,667.36	8,667.36		0.00		0.00	
Bond	15,250.44	15,250.44		0.00		0.00	
Economic Development	**$20,752.46**	**$14,486.30**	**2.7%**	**$6,266.16**	**5.8%**	**$0.00**	**0.0%**
Total	**$656,814.52**	**$545,181.08**	**100.0%**	**$108,688.46**	**100.0%**	**$2,944.98**	**100.0%**

Deferred Loans

As at December 31, 2011, there were 110 deferred loans accounting for 35.7% 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 at December 31, 2011

Project Name	# of Loans	%of Loans	Principal Balance	% of Principal Balance
Developer Loans	**29**	**26.4%**	**$8,981,518.80**	**83.60%**
HOME	11		2,198,793.72	
CDBG	2		2,278,750.00	
Bond	14		3,938,975.08	
General Fund	2		565,000.00	
Annual Reduction	**81**	**73.6%**	**$1,761,730.69**	**16.40%**
TOTAL	**110**	**100%**	**$10,743,249.49**	**100%**

During S1FY12, the forgivable amount for annual reduction loans was $157,857.26. These loans are reduced one tenth of the loan amount annually if property taxes and homeowners insurance are current and the home is properly maintained. An annual curbside inspection is performed and property tax records are reviewed before the annual amount is written off.

Amortizing Loans

A majority of the portfolio, 709 loans accounting for 86.1% of the number of loans and 63.7% of the original amount loaned, consists of amortizing loans.

Table 5: Amortizing Loans, By Project Name, as at December 31, 2011

Project Name	# of Loans	% of Loans	Principal Balance	% of Principal Balance
Developer Loans	**53**	**7.5%**	**$8,266,528.38**	**43.5%**
HOME	34		2,477,021.71	
CDBG	4		374,221.88	
Bond	15		5,415,284.79	
General Fund	0		0.00	
Individual Loans	**511**	**72.1%**	**$8,273,871.76**	**43.5%**
HOME	158		2,824,091.77	
CDBG	42		999,382.71	
Bond	311		4,450,397.28	
Habitat	**145**	**20.5%**	**$2,481,861.22**	**13.0%**
HOME	91		1,611,764.77	
CDBG	26		479,441.20	
Bond	28		390,655.25	
TOTAL	**709**	**100.0%**	**$19,022,261.36**	**100.0%**

Summary of Issues

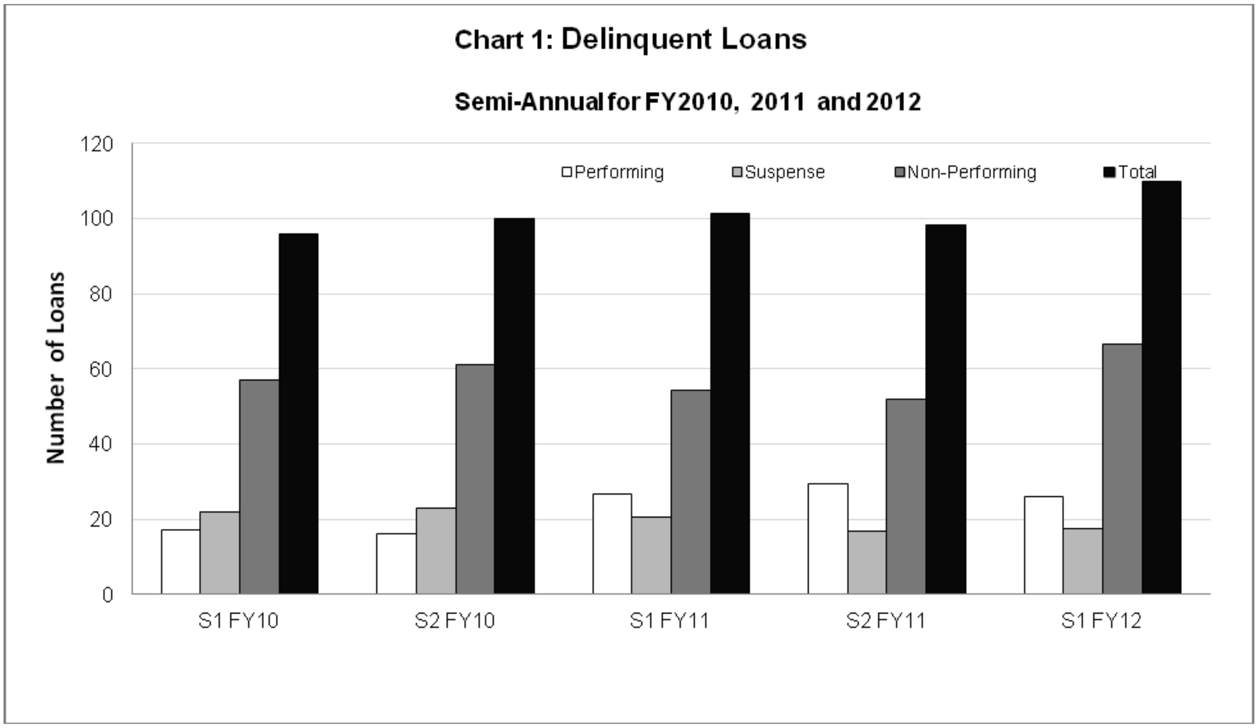
Delinquencies

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 to bring their loans current. Borrowers continue 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. All 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 S1 FY12 is higher at 15.5% (110 loans) than S2 FY11 which was 13.7% (98) loans. The portfolio historically performs better in the second half of the year. One main reason for the lower rate in delinquent borrowers during S2 FY11 may be that borrowers use their tax refunds to bring their accounts current. The rate between S1 FY 2011 and S1 FY 2012 increased .9%, from 14.6% to 15.5%.

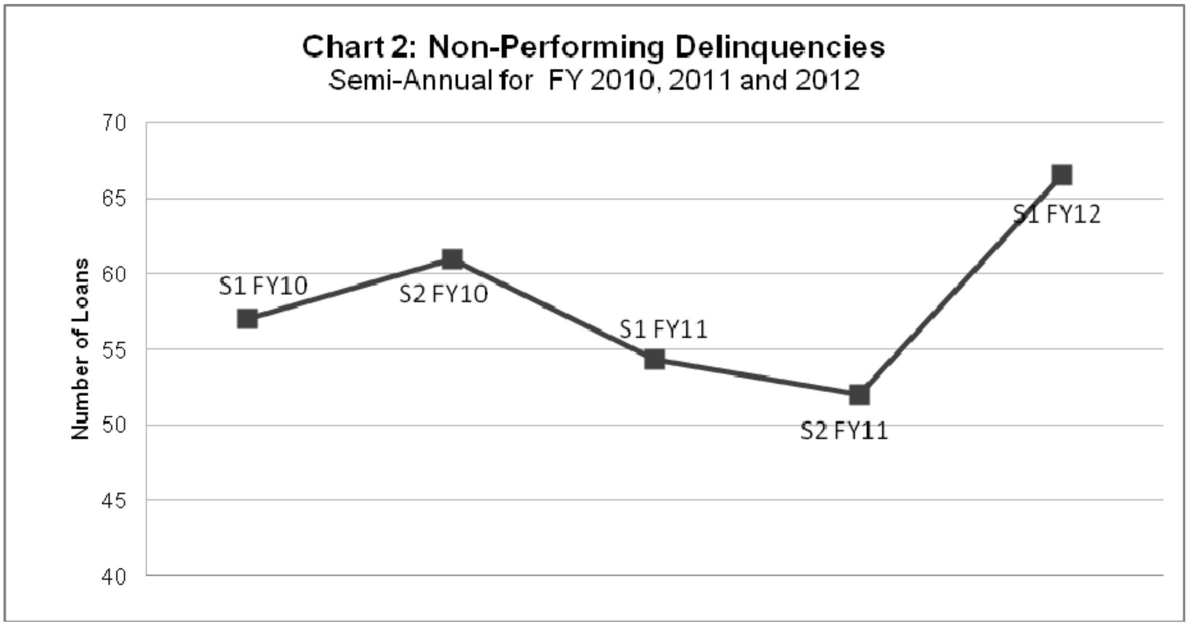


Delinquencies are grouped into three categories:

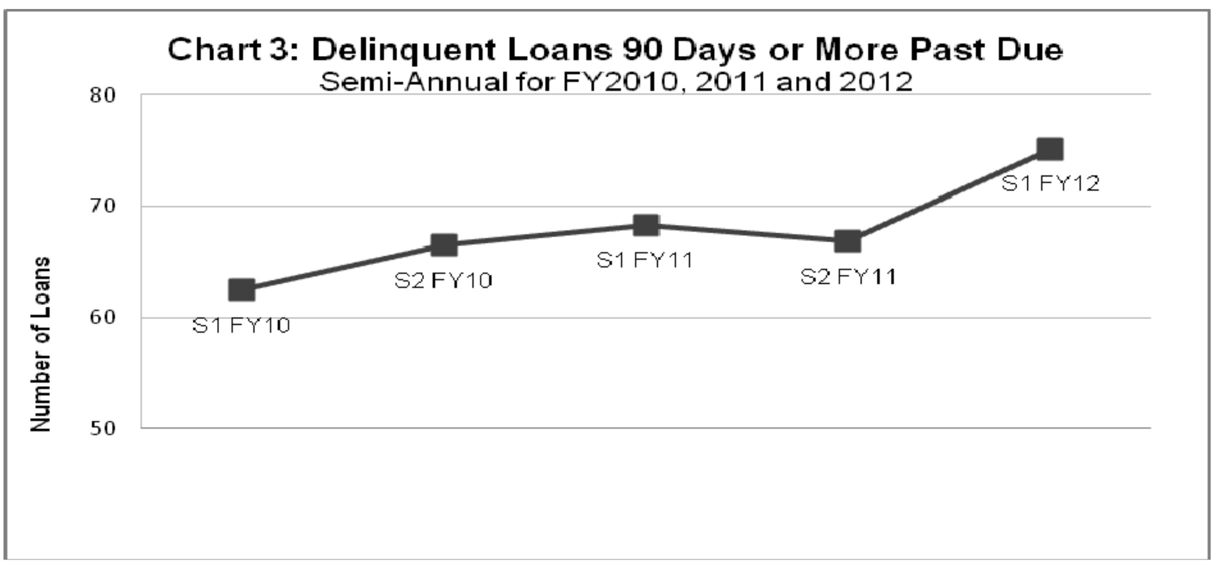
1. Performing Delinquencies: These borrowers are making timely payments on their delinquent loans or have entered into repayment plans. The performing delinquency rate in S1 FY12 is relatively the same as S1 FY11 with 27 loans and 26 loans respectively, with a rate of 3.7% of amortized loans. As a result of the DCD offering in-house loan 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 for S1 FY12 (2.5% or 18 loans) are less than the same period of S1 FY11 (3.0% or 21 loans).

***3. Non-Performing Delinquencies*:** These are borrowers that are more than 30 days past due and are non-responsive to our delinquency notices and calls. During S1 FY12, this rate increased to 9.4% (67 loans) from 7.8% (54 loans) in S1 FY11, therefore, bringing the overall delinquency rate up. See Chart 2.



During S1 FY12, the total number of delinquencies for loans that are 90 days or more past due was 75 loans. This rate is higher than the SFY1 2011 rate of 68 loans. See Chart 3.



During S1 FY12, 68.6% (75 loans) of the total delinquencies fell into this category. A number of these borrowers are currently working with in-house loan counselors and Amerinational. The DCD continues to work through in-house loan 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 work directly with Amerinational 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 in-house loan counseling.

Foreclosures
During S1 FY12, the DCD did not initiate foreclosure on any properties in the portfolio, but had two write-offs due to foreclosure by the first mortgage lender. These loans were made to first time homebuyers. The total principal balance written-off for both loans was $39,724.34. One of the borrowers involved in foreclosure is deceased. In the case of foreclosure, before a loan is written-off, the DCD conducts a feasibility analysis to determine 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.

Accomplishments for S1 FY12
1. Borrowers are becoming more responsive to delinquency mailings when given an option to speak with someone in the DCD regarding their loan delinquency.
2. DCD staff began in-house loan counseling to assist delinquent borrowers with budgeting and assists with forbearance plans through Amerinational to bring their loans current.

Goals for S2 FY12
During the second semi-annual period of FY2012, the DCD will:
1. Continue annual compliance monitoring.
2. Continue to monitor tax records and monitor first mortgage loans to detect borrowers in danger of foreclosure.
3. Work to reduce delinquency rate.
4. Continue cleaning-up payment histories.

Alternatives
Not applicable

Financial Impact
Not applicable

SDBE Summary
Not applicable

Attachments
Not applicable

Cc: Robert Wade, Business Services Manager, DCD
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