

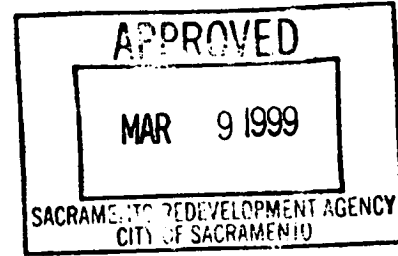


**APPROVED**  
BY THE CITY COUNCIL

**MAR 9 1999**

OFFICE OF THE  
CITY CLERK

March 9, 1999



Redevelopment Agency, Housing Authority,  
and City Council of the City of Sacramento  
Sacramento, California

Honorable Members in Session:

**SUBJECT:** Standardization of Agency Loan Servicing Policies

**LOCATION & COUNCIL DISTRICT** City

**RECOMMENDATION**

Staff recommends adoption of the attached resolution(s) that establishes standardized loan servicing policies and authorities for the Agency's residential and commercial loans.

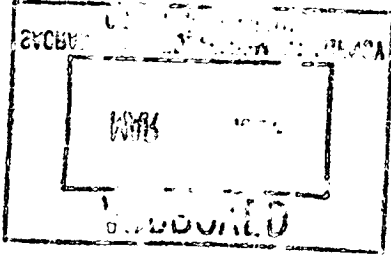
**CONTACT PERSONS**

Richard Nelson, Program Operations Director, 440-1344  
Connie Schmidt, Portfolio Management Manager, 440-1368

**FOR COUNCIL MEETING OF:** March 9, 1999

**SUMMARY**

This report recommends the adoption and implementation of Agency-wide loan servicing policies for the Agency's residential and commercial loan programs. These policies designate review, process, and approval authority for loan servicing activities.



## SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

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### COMMISSION ACTION

At its meeting February 17, 1999, the Sacramento Housing and Redevelopment Commission adopted a motion recommending approval of the attached resolutions. The votes were as follows:

AYES: Castello, Cespedes, Dobbins, Harland, Hoag, Newsome, Rotz, Simon  
NOES: None  
NOT PRESENT TO VOTE: Amundson  
ABSENT: Holloway

### BACKGROUND

The Agency offers a variety of loan programs to assist owner occupants with purchase and repair of their homes, to assist development and rehabilitation of multi-family residential units, and to assist development and rehabilitation of commercial enterprises.

As part of the Agency's reengineering process completed in 1998, staff has initiated significant changes in the way we make loans and manage our loan portfolio. These changes were based on customer feedback and benchmarking of best practices by high performing public and private sector lenders around the nation. Agency Underwriting Guidelines were adopted in December 1998 to establish the standardization of one lending process and to designate the approval authority for the Agency's commercial and residential loan programs.

The Agency currently has a portfolio of approximately 1,975 loans. Historically, these loans have been serviced by Agency staff assigned to various loan programs. Staff operated with a variety of policies, procedures, and approval authorities. A Portfolio Management unit was created to provide comprehensive servicing and monitoring of the Agency's loan portfolio. The implementation phase of reengineering has accomplished the organization of the Portfolio Management unit. The transfer of loan servicing activities, as recommended in this report, to the Portfolio Management unit will be completed by the adoption of comprehensive loan servicing policies.

The policies outlined in Attachment I establish consistent review, process, and approval authority for all Agency loan servicing activities related to:

- ◆ foreclosure by the Agency
- ◆ foreclosure by a senior lender

## SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

Redevelopment Agency, Housing Authority  
And City Council of the City of Sacramento  
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- ◆ subordination of an Agency loan
- ◆ assumption of an Agency loan
- ◆ deferment of loan payments
- ◆ forgiveness of loans
- ◆ short sales
- ◆ restructure of loan terms
- ◆ forbearance of payments
- ◆ additional encumbrance of loan security

The Agency's Portfolio Management staff will conduct all servicing activities outlined in this report. The processes of subordination when the Agency is in first lien position, short sale, foreclosure, assumption, further encumbrance and restructuring of loan terms will be subject to review by a staff team which will include loan program underwriting staff.

Servicing activities are subject to existing loan program guidelines and funding source restrictions adopted by the City Council and Board of Supervisors. When applicable, the Agency Underwriting Guidelines adopted in December 1998, will be followed to continue the standardization of one lending process. The Approval authorities adopted in the Underwriting Guidelines will apply to servicing activities. Attachment II, Loan Servicing Authorities, summarizes the recommended servicing activities and approval authority.

### **FINANCIAL CONSIDERATIONS**

The recommended action in this report has no financial impact.

### **POLICY CONSIDERATIONS**

This report standardizes policies for the Agency that will provide consistency and uniformity for the Agency's loan servicing functions.

### **ENVIRONMENTAL REVIEW**

The proposed action does not constitute a project under CEQA per Guidelines Section 15378 (b) (3), nor a federal undertaking under NEPA.

**SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY**

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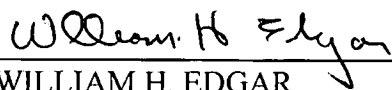
**M/WBE CONSIDERATIONS**

The actions contained in this report have no direct M/WBE impact.

Respectfully submitted,

  
ANNE M. MOORE  
Executive Director

Transmittal approved,

  
\_\_\_\_\_  
WILLIAM H. EDGAR  
City Manager

RESOLUTION NO. 99-101

APPROVED  
BY THE CITY COUNCIL

MAR 9 1999

ADOPTED BY THE SACRAMENTO CITY COUNCIL

OFFICE OF THE  
CITY CLERK

ON DATE OF \_\_\_\_\_

**STANDARDIZATION OF LOAN SERVICING POLICIES  
AND AUTHORITIES FOR AGENCY  
COMMERICAL AND RESIDENTIAL LOANS**

BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF  
SACRAMENTO:

Section 1. The established Agency Loan Servicing Policies and Authorities  
for commercial and residential loans attached as Attachment I and II are approved.

\_\_\_\_\_  
MAYOR

ATTEST:

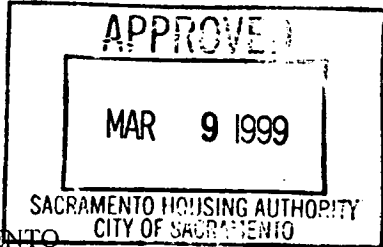
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CITY CLERK

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**FOR CITY CLERK USE ONLY**

RESOLUTION NO.: \_\_\_\_\_

DATE ADOPTED: \_\_\_\_\_



RESOLUTION NO. 99-002  
ADOPTED BY THE HOUSING AUTHORITY OF THE CITY OF SACRAMENTO

ON DATE OF \_\_\_\_\_

**STANDARDIZATION OF LOAN SERVICING POLICIES  
AND AUTHORITIES FOR AGENCY  
COMMERCIAL AND RESIDENTIAL LOANS**

BE IT RESOLVED BY THE HOUSING AUTHORITY OF THE CITY OF  
SACRAMENTO:

Section 1. The established Agency Loan Servicing Policies and Authorities  
for commercial and residential loans attached as Attachment I and II are approved.

\_\_\_\_\_  
CHAIR

ATTEST:

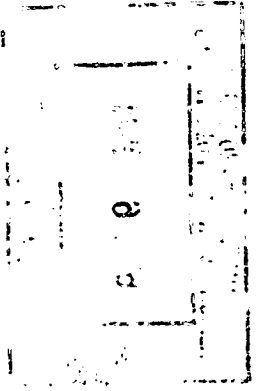
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SECRETARY

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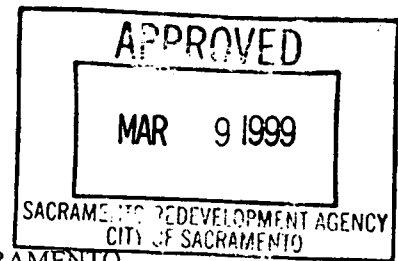
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RESOLUTION NO.: \_\_\_\_\_

DATE ADOPTED: \_\_\_\_\_







RESOLUTION NO. 99-007

ADOPTED BY THE REDEVELOPMENT AGENCY OF THE CITY OF SACRAMENTO

ON DATE OF \_\_\_\_\_

**STANDARDIZATION OF LOAN SERVICING POLICIES  
AND AUTHORITIES FOR AGENCY  
COMMERCIAL AND RESIDENTIAL LOANS**

BE IT RESOLVED BY THE REDEVELOPMENT AGENCY OF THE CITY OF  
SACRAMENTO:

Section 1. The established Agency Loan Servicing Policies and Authorities  
for commercial and residential loans attached as Attachment I and II are approved.

\_\_\_\_\_  
CHAIR

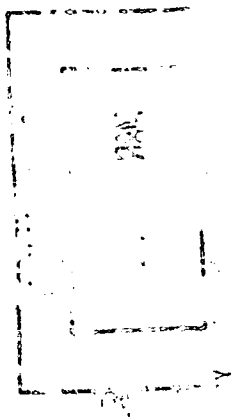
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SECRETARY

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FOR CITY CLERK USE ONLY

RESOLUTION NO.: \_\_\_\_\_

DATE ADOPTED: \_\_\_\_\_



The following loan servicing policies are applicable to all Agency loans and supercede all prior servicing guidelines and criteria which are in conflict, including without limitation, delegation of approval authorities. These policies do not supersede adopted loan program policies or underwriting procedure and are subject to any Federal regulations governing use of funds. These policies can only be changed by the Agency's governing bodies.

**Agency Loan Default/Foreclosure by Agency**

Subject to review by a staff team and the Agency legal department, and to approval by the Executive Director, Portfolio Management staff will initiate foreclosure on loans in default of the following criteria identified in Agency loan program guidelines and most loan documents:

- Failure to make loan payments when due as required by loan documents.
- Further encumbrance of the secured property without Agency approval.
- Failure to make payment of property taxes on the secured property prior to delinquency.
- Failure to maintain adequate hazard insurance on the secured property (including flood insurance, if required for the loan) with endorsement to the Agency as secured lien holder, as its interests may appear.
- Failure to meet material terms specified in the Agency's loan documents, including without limitation, requirements for maintenance of the secured property, requirements for information and records as required for Agency monitoring, and requirements of Agency regulatory agreements on the secured property.
- Transfer of title without repayment of the loan, or otherwise, without Agency approval.
- Failure of the borrower to reside in the secured property for loans made through Agency owner-occupied loan programs.

**Foreclosure Action by Senior Lien Holder**

To protect the Agency's investment and loan security, the following options will be followed, subject to funding source restriction, underwriting policies, budgetary considerations, and financial analysis:

Advance of Funds to Reinstate Loan

- Staff will evaluate on a case by case basis. If the borrower can demonstrate the financial ability to maintain the loan current, and the advance of funds will not jeopardize the Agency's loan security or exceed a loan to value ratio stated in program guidelines, loan agreement, or DDA, the advance of funds to reinstate may be approved by the Executive Director, if total Agency funding does not exceed \$100,000. Should the advance of funds exceed the Executive Director's approval authority, current approval authority and underwriting policies must be followed.

Discount and Sale of Agency Note

- Staff will evaluate on a case by case basis to reduce the amount of loss to the Agency. Processing procedures will include establishing a minimum bid amount, an opening bid date, advertisement of competitive bid, bid selection, and execution of assignment of beneficial interest. The Executive Director may approve recommendations to discount or sell notes; provided the amount of discount does not exceed \$100,000. Approval of discounts exceeding the Executive Director's approval authority, must follow current underwriting policies.

Bid/Not Bid At Trustee's Sale

- Staff will evaluate on a case by case basis by completing a financial and real estate market analyses. To determine economic feasibility and benefit to the Agency, the costs of acquisition, repair, maintenance, and resale will be considered when assessing a bid amount or potential loss amount to the Agency. Staff recommendation to bid will be subject to SHRA Commission approval. Recommendation not to bid may be approved by the Executive Director.

**Subordination of Agency Loan Holding Junior Position**

The following criteria will be followed to service requests to subordinate secured Agency loans to new senior debt subject to underwriting criteria:

Agency in Subordinate Lien Position

Loans to Owner Occupants

- A new senior debt to achieve an interest rate reduction or conversion of an adjustable rate on senior lien to a fixed rate, at substantially the same rate or less, will be processed and approved by Portfolio Management. The inclusion of credit debt or junior secured debt will not be approved. The inclusion of funds for additional home repair may be approved if the new loan to value ratio does not exceed current underwriting standards, jeopardize Agency's security position, or exceed the borrower's ability to meet financial obligations.

To the extent permitted by federal loan programs administered by the Agency (e.g., HOME loans) elderly borrower(s), as defined by the Department of Housing and Urban Development (HUD), may refinance credit debt and debt incurred for medical expenses, subject to current underwriting standards. Subordination to a "reverse mortgage" will not be allowed.

Loans to Investors and Commercial Loans

- The refinance of senior debt to reduce an interest rate or convert from an adjustable rate to a fixed rate, at substantially the same rate or less, will be processed and approved by Portfolio Management. The inclusion of additional repair/rehabilitation costs will be evaluated on case by case basis subject to loan to value requirements and review by Development Services, underwriting and construction staff. The transfer of debt from another property is prohibited

**Subordination of Agency Loan Holding Senior Position**

Requests to subordinate an Agency's existing senior lien position to a new senior debt will be considered on a case by case basis. The borrower shall provide a written request along with supporting documentation. Consideration shall be given to the request pursuant to funding source restriction, current program underwriting criteria, and approval authorities.

**Loan Assumption**

All assumption requests will be reviewed by an appropriate staff team and must conform to current underwriting criteria and approval authority.

Owner Occupied Rehabilitation Loans

- The applicant must be an inheriting family member, or family member who acquires property ownership when the borrower is permanently placed in a convalescent hospital or long-term care facility. The family member must meet the loan program's income eligibility requirements and must occupy the property as their primary residence. Eligibility for payment deferment, if any, is defined in program guidelines.

Owner Occupied Purchase Assistance Programs

- Loan assumption will not be available for purchase assistance programs having a maximum loan amount of \$5,000 unless stated in program guidelines or loan documents.

Investor Loans

- Subject to loan program guidelines and loan documents, assumption requests for investor loans will be evaluated on a case by case basis upon submission of an application, project financial information, personal, partnership, or corporate financial statements and income tax returns, and a property management plan.

### Commercial Loans

- Subject to the loan program guidelines and loan documents, assumption requests for commercial loans will be evaluated on a case by case basis. Required documentation is as stated for Investor Loans.

### **Further Encumbrance**

For a variety of reasons, many property owners with Agency loans wish to encumber the secured property with additional debt. These loans must be junior to the Agency loan, have a lower security position, and be subject to current underwriting criteria and approval authority . Copies of borrower's application to the new lender, the terms for the new loan, documents for the new loan, the property appraisal submitted for the new loan, and a current preliminary title report must be submitted for review.

### **Forbearance**

Upon written request of a borrower, the Agency will consider a forbearance plan to allow reinstatement of a delinquent Agency loan to current status . The borrower must indicate the cause of the delinquency, propose a reinstatement plan, and submit financial information necessary to support the request. Forbearance plans shall address delinquencies of six months or less. Delinquent payments will be collected at the end of the loan term or paid in installments during the loan term. Forbearance shall be in written form stipulating the payment plan amount and duration. Portfolio Management may approve forbearance requests, subject to approval of the unit manager.

### **Deferment of Loan Payments/Deferment Review**

Several Agency loan programs offer deferral of loan payments for specified periods of time. Extensions of the deferral period are reviewed incrementally as prescribed in the program guidelines, loan documents, and are subject to the stated eligibility criteria. When a borrower qualifies for loan deferment, Portfolio Management will modify the loan to reflect a revised loan payment schedule within the original loan term. Deferrals requested within the authority of established program guidelines or loan documents will be processed by Portfolio Management staff and approved by the unit manager

For Agency loan programs which do not offer payment deferral, a deferral may be considered upon submission of a written request by the borrower outlining the circumstances prompting the request. Portfolio Management may request any relevant supporting documentation for the request, i.e. financial statements and management information. Deferred principal and any accrued interest may be collected at the end of the loan term or repaid under a recalculated loan

payment schedule within the original loan term. The Loan Committee will approve deferral requests for loan programs that do not offer payment deferment.

**Restructuring - Modification of Terms**

A borrower may request a modification of loan terms by submitting a written request to the Agency. This request must be accompanied by supportive documentation and financial information as required by Portfolio Management. Consideration will be given to the request subject to funding source restriction, and program guidelines. The Loan Committee may grant such extensions or modifications subject to current underwriting criteria.

Should the restructuring or modification of a loan result in an increase in the interest rate or the principal of the note, staff will verify that there are no subsequent (junior) lien holders to the Agency loan. If a junior loan exists staff will notify that lien holder of the modification.

**Forgiveness**

Certain Agency loan programs offer forgiveness of debt upon completion of residency requirements or other qualifying criteria. Program guidelines and loan documents stipulate the qualifying criteria, identify increments of forgiveness and pro-ration of forgiveness. Portfolio Management may approve forgiveness upon written proof of satisfaction of the stated criteria for forgiveness.

A borrower requesting forgiveness of debt for a loan that does not prohibit forgiveness must submit the request in writing with supporting documentation and financial information, as required by Portfolio Management. The Commission will consider such request, based upon Portfolio Management's recommendation, the loan program and current underwriting criteria subject to funding source restriction.

**Short Sale**

When a borrower wishes to avoid or stop foreclosure action, or sell a property that has become a financial hardship or liability, the Agency may consider short sale requests. If the total Agency debt will not be repaid, if foreclosure by the Agency is not an option, or if bidding at a trustee's sale is not financially prudent, accepting partial payment may be a more favorable option than the alternative of complete loss.

The borrower must submit a written request stating the terms of the proposed sale transaction. The request must include a copy of a current appraisal, the proposed sales contract and a statement of estimated closing costs reflecting the amount to be paid to liquidate the Agency loan obligation.

The Loan Committee may approve the short sale subject to funding source restrictions and loan program guidelines.

<u>Process</u>	<u>Approval Authority</u>
Foreclosure by Agency	Executive Director
Foreclosure by Senior Lender	
Advance of \$\$ to Reinstate	
Agency funding < \$100,000	Executive Director
Agency funding > \$100,000	Underwriting approval authority
Discount/sale of note	<\$100,000 – Executive Director >\$100,000 – Underwriting approval authority
Bid at sale	SHRA Commission
No Bid at sale	Executive Director
Subordination	
Agency in subordinate position	Portfolio Management staff
Agency in senior position	Underwriting approval authority
Assumption	Underwriting approval authority
Additional Encumbrance	Underwriting approval authority
Deferment of Loan Payments	
Provided in program guidelines	Portfolio Management staff
Not provided in program guidelines	SHRA Loan Committee
Forgiveness	
Stipulated by program guidelines	Portfolio Management staff
No program guideline stipulation	SHRA Commission
Short Sale	SHRA Loan Committee
Restructure	SHRA Loan Committee
Forbearance	Portfolio Management staff

Note 1. Underwriting Approvals adopted by Governing Bodies in December 1998

Executive Director	All loans <\$100,000
Loan Committee	Commercial Loan <\$500,000
	Residential Loans <\$1,000,000 or \$20,000 per residential unit, whichever is less
City Council or Board of Supervisors	Above \$500,000 for Commercial loans and above \$1,000,000 for Residential loans

Note 2. Authorities for subordination were previously delegated to Agency Loan Committee. Authorities for foreclosure by Agency and discount/sale of note were previously delegated to Executive Director for residential rehabilitation loans only.