



City of Racine, Wisconsin
AGENDA BRIEFING MEMORADUM

AGENDA DATE: October 12, 2020

SUBJECT:

Request from the Manager of Neighborhood Services to amend the policies and procedures for the servicing of housing rehabilitation loans.

PREPARED BY:

Matthew Rejc, Manager of Neighborhood Services

EXECUTIVE SUMMARY:

On 8/10/2020, the CDBG Advisory Board (the "Board") recommended that staff develop a policy that would report loan modifications requested due to COVID-19 to the Board. Acting on this directive, staff proposes the revisions included in this memorandum.

BACKGROUND:

Each loan application is processed and upon meeting HUD regulations and the Housing Rehabilitation and General Administration Policy & Procedures Manual requirements, a loan summary is presented to staff for review and recommendation to the Board. Only the Board may approve loans processed by staff. Upon approval, staff moves the file forward to contract closing.

The property/borrower must have in place the following, at a minimum, before being presented to the Board:

- Borrower must have a reasonable amount of equity in the property & must be current with mortgage payments
- Borrower must be current on home owner/property insurance policy
- Borrower must be current on property tax payments, unless the borrower has entered into a payment plan with the County Treasurer that is also accepted by the City
- Title to the property is clear of liens/judgements
- Borrower's income and total debt ratio is found to be reasonable, allowing the borrower is able to take on new payments related to the City loan

PROPOSED UPDATE:

Staff requests permission for the following items also be conducted administratively in the future and reported to the CDBG Advisory Board on a monthly basis:

- 1) Loan modifications, requested & granted due to COVID-19
- 2) Negotiate a payoff with the assistance of an attorney or collection agency in order to avoid a complete loss in the case of a delinquent borrower
 - In this case, staff would have authority to negotiate a settlement with a goal of at least recouping the principal balance of the City rehabilitation loan; Owner/heir would be required to show listing contract and agree to show the **accepted** offer to purchase before approval is granted. Staff would work with the closing title company to ensure City is paid as agreed
- 3) Make Loan assumption agreements due to deceased borrower and/or heir(s) request to assume a loan.

- If the heir(s) qualify per policies to assume loan, the loan balance is re-calculated to pay off over no more than 10 years
 - Also, an assumption agreement is used to ensure that the City does not lose its place on title and lose equity; the City's existing mortgage stays intact
 - Assumptions may only be made to homeowner's heir/s occupying the property which was repaired;
 - Investor-owned properties are not eligible for loan assumptions
- 4) Write off loans – specifically loans that lack payments, lack in equity & value; and where usually the City is not in first place on title and cannot buy out the first lender. The loan is deemed uncollectible but the mortgage is not removed from Title.
- 5) Refer delinquent loans that staff determines may be collectible to legal counsel
- 6) Limit to one year the length of time that the City will pay for lender's insurance (forced-placed insurance) if not insured by homeowner/investor. At the one-year anniversary of paying for lender's insurance, staff will refer the case to legal counsel for breach of contract (this is a regular requirement for a mortgage document).

BUDGETARY IMPACT:

The proposed changes are not expected to have any significant budget impact. No new expenses or revenue streams are proposed.

RECOMMENDED ACTION:

That the CDBG Advisory Board approve the recommended policy and procedure changes regarding the servicing of housing rehabilitation loans.