

Chapter 12: Delinquent Loans and Loans in Default

- A. Initial Delinquency (1 – 4 months).
 - 1. If a borrower misses a payment (one month), the finance department accountant shall send a reminder letter to borrower.
 - 2. When a borrower becomes four (4) months delinquent in his/her monthly payment, the accountant shall notify the consumer lending specialist, who shall refer the delinquent borrower to the city attorney's office or outside counsel designated by the City Attorney.
 - 3. The attorney shall mail (by regular first class mail) the delinquent borrower a "Notice to Cure" and copy the finance department accountant and the consumer lending specialist.
 - 4. If the delinquent borrower responds to the "Notice to Cure" and desires to make arrangements to make up the arrearage, the attorney and/or the consumer lending specialist shall negotiate such arrangement. Arrangements that do not change the interest rate or total number of payments may be made administratively without Loan Board approval.
- B. Collections (5+ months delinquency).
 - 1. Delinquent borrowers who have not responded to correspondence from the finance department or attorney's office shall be sent by the consumer lending specialist to the collection agency. The collection agency shall send the delinquent borrower a letter informing them that their account has been turned over for collection.
 - 2. Delinquent borrowers that made payment arrangements on arrears but did not keep the arrangements shall also be turned over to the collection agency.
 - 3. Any loan sent to collections shall be included in the tax intercept program.
 - 4. One year after a loan is sent to collections, the consumer lending specialist shall review with the Board the probability that the collection will be successful or whether the loan should be written off as bad debt.
 - 5. All delinquent loans should be reduced to judgments when no collections progress has been made; however, due to time and cost effectiveness, only those meeting the following criteria will be referred for judgment:
 - a. Delinquent borrowers except those whose only source of income is SSI or SSDI (disability).
 - b. Delinquent borrowers who have a Rental Rehabilitation or Mixed Use loan.
 - c. Those who owe a minimum of \$1,000.
- C. Release from Collections.
 - 1. If borrowers become current – any arrears are paid up, they are released from collections and returned to good standing with the regular loan payment program. The terms of the borrower's loan are unchanged.
- D. Default and Foreclosure.
 - 1. Borrowers who are four or more months delinquent shall be considered to be in default. Borrowers who are found to be tax delinquent and/or have let insurance lapse (including borrowers placed on forced insurance) shall be considered to be in default.
 - 2. Following the twice per year loan compliance review (see chapter 11 of this manual), the consumer lending specialist shall report borrowers in default to the city attorney's office or outside counsel designated by the City Attorney.
 - 3. The attorney shall mail (by regular first class mail) the delinquent borrower a "Notice to Cure" and copy the finance department accountant and the consumer lending specialist.
 - 4. When the period for the borrower to respond to the "Notice to Cure" has passed, the consumer lending specialist shall forward borrowers still in default to the Board. The

Board shall review the loans in default to determine whether foreclosure shall be pursued.

5. Foreclosure should be pursued when there is a high likelihood that the city can recover the principal of the loan after all expenses of foreclosure and surviving liens are paid or the default threatens the integrity of the loan program (for example, allowing owners of income producing properties to avoid payment).

Note: Delinquencies are reported to the credit bureaus at the first missed payment. Once an account has been turned over to collections, our report to the credit bureaus must state so and list the collection agency and contact information. The collection agency will work with borrowers to arrange a payment plan and the collection agency will report to the credit bureaus that payment plan arrangements have been made.

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