

POLICY

Subject: **HOUSING COMMISSION LOAN RESTRUCTURING AND MODIFICATION POLICY**

Number: **PO600.104**

Effective Date: **5/25/99**

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1. **PURPOSE**

- 1.1 To state Commission policy and program parameters for the modification and restructuring of existing loans.

While it is the purpose of this policy to provide overall general guidelines and standards for loan modifications, circumstances may arise that are not addressed herein. In these cases, the Chief Executive Officer may, with the advise of General Counsel, take action deemed most appropriate under the circumstances. If individual cases require deviation from these standards and guidelines, the Chief Executive Officer or designee will be authorized or recommend authorization to the appropriate body as outlined in the level of authority.

2. **POLICY**

- 2.1 A loan modification is a written agreement between the Housing Commission, as the beneficiary, and the borrower, as the trustor, which alters the terms and/or conditions of the Commission's loan.

A. The modification of any loan shall be in accordance with all federal, state or local laws, and regulations.

B. All requests for loan modifications shall be reviewed on a case-by-case basis by Housing Commission staff qualified to underwrite loans. Each request will be analyzed using current data. The borrowers will be charged for all out-of-pocket expenses, including a loan modification/processing fee, which may be adjusted from time-to-time by the Commission. In the case of a hardship to the borrower who is a very low-income owner occupant, the fees may be added to the outstanding principal balance of the Housing Commission's loan.

C. When Housing Commission loan documents allow for the modification of the terms of the loan upon the occurrence of certain events, then the Commission shall modify the affected loan documents upon the occurrence of the stated event(s). The borrowers will be charged for all out-of-pocket expenses, including a loan modification/processing fee, which may be adjusted from time-to-time by the Commission.

- 2.2 The Chief Executive Officer shall be authorized to approve requests for loan modifications in cases listed below.

A. Existing loan documents specify that the property is to be owner-occupied, but the property has changed from owner-occupied to rental due to circumstances beyond the

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control of the borrower. In such cases, the loan terms may be modified, including an increase or decrease in the interest rate to coincide with rates then being charged by institutional lenders for similar property. In cases where the change in occupancy, from owner-occupied to rental is not approved by the Chief Executive Officer, the loan may be accelerated, causing it to become all due and payable.

B. The Housing Commission is requested to issue a partial reconveyance that will release a portion of the property. A partial reconveyance will be authorized in cases where remaining property adequately secures the outstanding debt under the terms of the loan documents, adequate title insurance is provided after recordation of the partial reconveyance, and it has been determined that property remaining subject to the deed of trust constitute legal lots within the meaning of the Subdivision Map Act and local ordinances. Staff may request such information from the borrower that it deems necessary to make a recommendation for partial reconveyance. The borrower shall pay fees and related expenses as determined by the Housing Commission to adequately cover costs associated with making a determination in response to this request.

2.3 The Chief Executive Officer shall be authorized to deny requests for loan modifications in cases where:

A. The borrowers are able to meet existing loan terms or have sufficient assets to fully protect the Commission's investment. The owners will be responsible to pay the monthly payments as due. If the request is regarding a rental project, no consideration will be given regarding the project's ability to cover the debt service, the loan-to-value ratio, or condition of the property; or

B. The rental project has sufficient income to pay all operating expenses and has a debt coverage ratio of 1.1 or greater.

2.4 The Chief Executive Officer is authorized to grant a full or partial deferral for up to five years for loans on owner-occupied properties. Loan Committee shall be granted authority to defer or partially defer all other loans funded directly by the Housing Commission for up to five years. Deferrals for loans will be provided if the following conditions are met:

A. The property does not have sufficient equity to cover the Housing Commission's lien;

B. The owners appear to have very limited or no assets; and

C. The deferral of the payments due the Housing Commission will make the project feasible.

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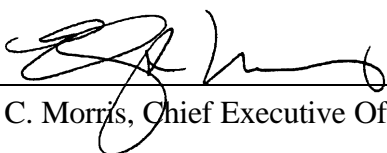
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- 2.5 In cases where deferment will not make the project feasible and restructuring of the Commission's debt is required (i.e. reduction in the interest rate or monthly payment, long term deferment), the authority for approval will be based on the Level of Authority as described in the Housing Program Lending Authority Policy 600.101. Notwithstanding Policy 600.101, the request for modification of loans on rental properties will be presented to the Housing Commission Board for consideration when the Housing Commission's investment exceeds \$50,000.
- 2.6 Housing Commission staff will produce the following reports:
- A. The status shall be provided to the Housing Commission on a quarterly basis, disclosing all loans modified by the Chief Executive Officer or the Loan Committee. The report will identify the substance of the modification and rationale for the action. The information will be incorporated into the quarterly Status of Loan Portfolio report.
 - B. A report will be provided to the Housing Commission at the beginning of calendar year of all loans becoming due and payable in that calendar year, including loans that were deferred and revert to monthly payments.

Adopted: 3/25/96

Revised: 5/25/99

Approved by:



Elizabeth C. Morris, Chief Executive Officer

6-1-99

Date



Steven Mikelman, Chief Operations Officer

5/28/99

Date