SPECIAL MEETING
COMMITTEE ON COMMUNITY IMPROVEMENT

August 17, 2009 **5:00 PM**

Chairman Garrity called the meeting to order.

The Clerk called the roll.

Present: Aldermen Garrity, Gatsas, Shea, O'Neil, Smith

Messrs: S. Maranto, K. Coffey

Chairman Garrity addressed item 2 of the agenda:

2. Communication from Leon LaFreniere, Planning and Community Development, recommending that the City accept a settlement agreement on two properties located at 383 East High Street and 242 Laurel Street which have begun foreclosure proceedings.
Note: These properties were purchased through the City's First Time Homebuyers Down Payment/Closing Cost Assistance Program.

Mr. Sam Maranto, Planning Department, stated our office was contacted last week by the Collector's Office at Saint Mary's advising us that there were two properties that were going to foreclose on which the City held third mortgages initially of $20,000 a piece, as a part of our first time homeowners program. They indicated that NeighborWorks, which held the second, was willing to take a percentage of what was owed to them and they asked us if we were willing to take that as well. I think the initial indication was 10%. When Todd Fleming presented this to me, he said we needed to go for more, in addition to going to the BMA before getting a decision on this. I said that it would be more likely that we would be looking at a much greater amount of money there. I looked at the amount of mortgages that were outstanding and the amount that Saint Mary's was getting and I thought it would be more equitable if we got more than the 10%. Then they went to 25%. We're advising you that they asked us to come back to you to see if you would settle for 50%, which is $7,000 for each mortgage of the $14,000 owed from each one. If we accept this, and they were to go to foreclosure, based on the value of the amount of money owed, the City would receive nothing. Also, the way it is structured they are not making payments to the City, but they have a ten year lien on the property, which

decreases 10% per year. If they were to sell it after three years, they would owe us 70%, which is the $14,000.

Alderman Garrity asked 70% is $14,000 per property?

Mr. Maranto replied yes.

Alderman Garrity asked that is what is owed in total for each property?

Mr. Maranto replied we have $14,000 for each property left and they are asking if we will accept approximately 50% of that or $7,000 per property.

Alderman Garrity asked are these CDBG funds?

Mr. Maranto replied they are HOME funds, affordable housing trust funds, yes.

Alderman Gatsas asked Sam, can you tell me who approved the third position on these mortgages? Was it the Board or did your department make that decision?

Mr. Maranto replied Alderman, from day one the program has been set up this way. It has always been that way, going back to the beginning of the program.

Alderman Gatsas asked how much do we have in third position mortgages?

Mr. Maranto replied I think we have 113 out right now. We've done 113 and I think this is the third one that has been defaulted on.

Alderman Gatsas asked do they all total $20,000 or do they vary?

Ms. Kellie Coffey, NeighborWorks, replied they all start out at $20,000 and they decrease each year by 10%, giving us where we are today, three years later, at $14,000.

Alderman Shea stated in discussing this with Bob Tunic he indicated that one of the problems that develops when properties stay vacant is that they become a menace to the neighborhood. People look at their evaluated property and find that it shrinks the values of their properties as well. He also indicated that some of this money is HUD money. Do you want to bring that up, Sam?

Mr. Maranto replied if I might, Alderman, I understand that generally we don't want to be in third position, but this program is run throughout the country and many communities don't even bother with liens and just put grants on the programs and that gives them the money. For years, if they changed titles I tried to make sure that some of

the money came back so we can reuse those funds. That's why we are in third position. If you look at programs they are oftentimes outright grants.

Alderman Garrity asked does this jeopardize HOME funds coming into the City at all?

Mr. Maranto replied no.

Alderman Gatsas asked what was the original sales price of 383 East High Street?

Mr. Maranto replied $228,000.

Alderman Gatsas asked that was the sales price?

Mr. Maranto replied yes.

Alderman Gatsas asked on East High Street?

Mr. Maranto replied yes, on July 31, 2009, correct.

Alderman Gatsas stated I'm going to ask you that question again, slowly.

Mr. Maranto stated it was $228,000, Alderman. I have the purchase and sale right here.

Alderman Gatsas asked that was the purchase and sale in 2006?

Mr. Maranto stated excuse me. I'm sorry. This was updated in July of 2009.

Ms. Coffey stated yes, the sales price on March 31, 2006, was $305,000. It is a three family home.

Alderman Gatsas asked how much was the first mortgage?

Ms. Coffey replied the first mortgage originated at the 80% being $244,000.

Alderman Gatsas asked how much was the second mortgage?

Ms. Coffey replied the second mortgage was with us and that balance was $50,000.

Alderman Gatsas stated that gets us to $294,000 and the $20,000 from the City gets us to $314,000. So, we financed this property for close to 120%?

Ms. Coffey replied the borrower was always required to bring in 1% of his own money and pay for his closing costs at that time. That's the way the program is run.

Alderman Gatsas stated I'm adding these up and if I add $244,000 plus the $50,000, plus our $20,000 that gets us to $314,000. The sales price was $305,000.

Ms. Coffey stated there were closing costs that would be the difference, fees and everything else. Then the borrower would bring in his own 1%.

Alderman Gatsas asked do you have a copy of a Regulation Z Form?

Ms. Coffey replied not with me, but yes, we would have that. The rules say we could go up to 105% combined loan to value.

Alderman Gatsas asked you could go to $320,000?

Ms. Coffey replied correct.

Alderman Gatsas asked where do your funds come from? The $50,000?

Ms. Coffey replied our funds are part of a participation loan pool where seven investors throughout the City committed $5 million to give back as second affordable mortgages.

Alderman Garrity asked there are no City funds that you get through the CIP process for the funding of your portion?

Ms. Coffey replied our funds are all from local banks and credit unions throughout the City.

Alderman Garrity asked if we don't approve it, what type of position does that put us in?

Mr. Maranto replied I believe we go to foreclosure on the 25th.

Alderman Garrity asked basically, we get zero?

Mr. Maranto replied unless we think they're going to get at least the value of the two mortgages in front of us, plus ours, yes. It is doubtful.

Alderman Garrity stated it says that Saint Mary's has a penny offer for $228,000 on East High Street.

Mr. Maranto replied correct.

Alderman Garrity asked what would we get under that scenario?

Mr. Maranto replied Saint Mary's is owed $248,000.

Alderman Garrity asked basically, we settle for the $7,000 each or nothing at all?

Mr. Maranto replied you could come back with another number if you want to make a counteroffer.

Alderman Smith stated I hate to see foreclosure because the same situation is going to happen over in the Granite Street area. There are going to be vacant, dilapidated buildings. It is not in the best interest of the City to have foreclosures. It will hurt the City more than anything else. From what I understand, it isn't costing the City any money. Am I correct right now?

Ms. Coffey replied that is correct because over time this loan would have been completely forgiven anyways. There is no other risk to the City.

On motion of Alderman Smith, duly seconded by Alderman Shea, it was voted to accept the settlement agreement.

Alderman Gatsas asked can you explain that again? The City would have gotten none of the $20,000?

Ms. Coffey replied this was a forgivable loan so we would put a lien on the property for $20,000. Every year that they remained in the property, 10% or $2,000 is forgiven. As we stand today, three years later, that balance has gone to $14,000. If these homeowners remained in the property, eventually this whole $20,000 would have been forgiven over a ten year period.

Alderman Gatsas asked if Saint Mary's is offering a bid of $159,900, there is a $76,000 difference. What is NeighborWorks of Greater Manchester receiving out of that $76,000 portion?

Ms. Coffey replied we're only receiving 10% of the principal balance, which is about $4,000 plus. Again, as Alderman Smith had said, we're not really in it for the foreclosure side of things because that's not good for Saint Mary's, it's not good for NeighborWorks, and it's not good for the homeowner who knew financially he could not afford this property so they did the right thing by putting it on the market. That being said, we would definitely prefer to take the loss and have it go to a short sale than have it be a foreclosed property in the City.

Alderman Garrity asked are the funds that your agency provides forgiven?

Ms. Coffey replied no, this is a true 30 year amortizing lien at a 4.75% interest. It is not my fund. It is a pool of money that we were able to get together from our investors. They

are essentially out the money as well. They have already agreed and accepted the offer of 10% of the principal balance.

Alderman Garrity asked Sam, what fund is it? First time home buyers?

Mr. Maranto replied we have a program called First Time Home Buyers. It is funding with HOME and Affordable Trust funds. Those are funds that come back to us from our other programs. They sell the property, those funds come back, and we use them again. Initially, they were home funds.

Alderman Garrity asked what is the balance of that program? Is there a balance?

Mr. Maranto replied we just refunded it for 2010 with a new allocation. First time home buyers would give you $150.

Ms. Coffey replied correct. Going forward we have $150. We have $12,500 remaining from a prior year.

Alderman Garrity asked with the other $14,000 you could potentially still help another first time home buyer with these funds that go back into that fund?

Ms. Coffey replied if they were able to pay it off.

Mr. Maranto stated the agreement we have with NeighborWorks states that if there are funds that come back, they come back to the City and the City puts them into an Affordable Housing trust fund. We may use that for first time home owners or for another project. It is up to the City's discretion how you want to spend those funds.

Alderman Gatsas stated I'd like to make a motion that before we accept third position on properties that this Board takes a look at what that third position is.

Alderman Garrity asked at the CIP Committee level?

Alderman Gatsas replied if that's where we're going to be looking at it, we should see it. My other concern is that someone is going to come in and…this property. They are going to be looking at a sales price of $228,000 and it is assessed at $314,000. That means it is going to be a reduction in taxes, I would assume.

Alderman Garrity stated if I was buying a property, that's what I would point to.

Mr. Maranto asked since we're at the beginning of the year, would you care to have a CIP meeting where we discuss the program in terms of the process and whether we do the third position grants?

Alderman Gatsas replied I would like to see the property, the buyers' name, and the Regulation Z Disclosure Statement so we see exactly what's coming forward and what position we are in.

On motion of Alderman Gatsas, duly seconded by Alderman Shea, it was voted to have the CIP Committee look at properties before the City enters into third position mortgages.

There being no further business on motion of Alderman Shea, duly seconded by Alderman Smith, it was voted to adjourn.

A True Record. Attest.

Clerk of Committee