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AUG 28 2009

Memorandum by City Manager's Office

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Leslye Krutko

SUBJECT: SEE BELOW

DATE: August 26, 2009

Approved

Date

8-28-09

COUNCIL DISTRICT: Citywide

INFORMATION ONLY

SUBJECT: STATUS REPORT ON FORECLOSURE IMPACTS TO THE CITY'S HOMEOWNER LOAN PORTFOLIO

The downturn in the nation's housing market has impacted all parts of the country, and San José is no exception. In 2008, banks foreclosed on 4,823 home loans in San José. In the first two quarters of 2009, an additional 1,079 homeowners lost their homes due to foreclosure.

The City of San José is a lender, providing loans to low and moderate-income homeowners for the purchase and rehabilitation of their home. The Housing Department's loan portfolio includes 415 rehabilitation loans with a value of \$16,652,270, and 1,101 homeowner loans with a value of \$65,204,849. Included in the homebuyer loan portfolio is \$3,571,604 in developer discount notes from developers of for-sale projects in Redevelopment Project Areas. While the City has not recently foreclosed on a loan, in cases where a senior lender forecloses, the City is at risk of losing some or all of its investment. The purpose of this memorandum is to update the City Council on the impact of the foreclosure crisis on the City's housing loan portfolio.

Even though the Department provides funds exclusively to low and moderate-income homebuyers, who may be seen as more risky borrowers, only three of the more than 1,500 loans in the City's loan portfolio were impacted by foreclosure last fiscal year. The City's total loss on these loans was \$110,000. The relatively small number of foreclosures experienced by the City's portfolio is due in part to the Department's lending requirement that borrowers must income-qualify for the senior debt. Approximately 98% of the first mortgage loans are traditional thirty-year fixed-rate mortgages.

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While the City's Homebuyer loan portfolio continues to be much stronger than that of the overall market, economic conditions suggest that the City's portfolio may experience additional impact. The Department is working with homeowners faced with foreclosure to help them save their home, including providing foreclosure prevention assistance through the City's ForeclosureHelp resource Center.

As an alternative to foreclosure, some borrowers are opting for "short sale." A short sale is an agreement between the homeowner facing foreclosure and their lender that allows the home to be sold for less than the existing loan balance. Because the City loan is in second position, were a borrower to opt for short sale, the discounted amount would be significantly less than the original loan. To-date several owners have requested a review for a potential short sale, however, no agreements have been reached.

The City Council will be informed of any short-sales and foreclosures in the future via the quarterly Delegation of Authority (DOA) Report that is distributed to the City Council and posted on the Housing Department Website at www.sjhousing.org.


LESLYE KRUTKO
Director of Housing

For questions regarding this memorandum, please contact Leslye Krutko at 408-535-3851.