

Redevelopment Authority of the County of Lancaster
 Report on the Performance of the
 Lancaster Housing Opportunity Partnership (LHOP)
Community Homebuyer Loan Program
 (January 1992- March 2009)

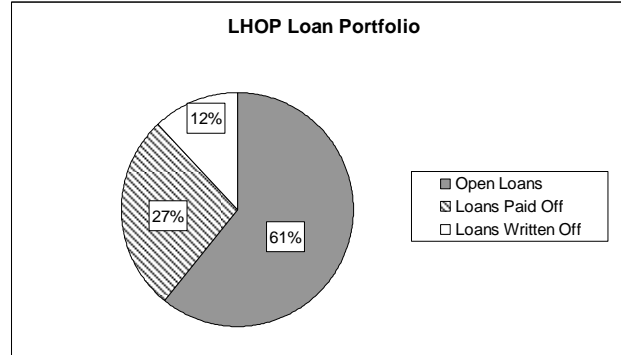
May 6, 2009

Executive Summary

This report examines the performance of LHOP’s Community Homebuyer Program (CHB) loan portfolio since its inception. Under current guidelines, CHB provides up to \$5,000.00 in a no-interest, deferred loan to assist low and moderate income buyers acquire their first home. These borrowers would be unable to enter the ownership market but for the availability of financial support to cover down payment and closing costs. LHOP does not allow adjustable rate mortgages, interest only mortgages or unconventional proofs of credit worthiness.

The following statistics summarize the performance of this program from 1992 through March of 2009: From inception until November 1995, the loans were part of a United Way program. They were transferred into LHOP’s portfolio upon its incorporation as an independent non-profit organization. Since November, 1995, loans have been originated and managed by LHOP. This report examines the full portfolio.

Chart 1: Loan Status Summary 1992 - 2009



	<u># of Loans</u>	<u>% of Total</u>	<u>Principle value</u>
• Loans issued:	1,632	100%	\$8,115,017.44
• Loans paid off:	444	27%	\$1,995,575.38
• Loans currently open	991	61%	\$5,351,328.81
• Loans written off ¹	197	12%	\$ 768,113.25

The finding is that the portfolio is stable and does not carry risks that warrant major restructuring of the program.

¹ A “write-off” is an amount deemed uncollectable due to a lien holder taking title through foreclosure, a short sale or a property going to sheriff’s sale. These actions meet the standard definition of “foreclosure” and the terms are thus, for the purposes of this report, synonymous. Upon completion of the civil action, LHOP writes the loan off its book.

I. Program History

Lancaster Housing Opportunity Partnership (LHOP) is a 501 (c) 3 non-profit corporation with a mission of increasing the array and the amount of housing choices available to persons of low to moderate income. LHOP helps clients improve their financial literacy skills through its Community Homebuyer Program, a 10 hour pre-closing education program for first time homebuyers. LHOP also helps persons of low to moderate income purchase their first home by providing closing cost and down payment assistance. Finally, LHOP provides development loans and conditional grants to non-profit and for-profit developers of affordable housing.

By ordinance, LHOP receives funding through the Lancaster County Affordable Housing Fees Ordinance, which dedicates a portion of the recording fees of deeds and mortgages to support affordable housing efforts. The Lancaster County Redevelopment Authority administers this fund on behalf of the County and maintains a contract with LHOP.

Additionally, LHOP receives federal Housing and Urban Development (HUD) HOME funds from both the Lancaster County Redevelopment Authority and Lancaster City. These funds can only be used for the Community Homebuyer Loan Program and the Community Homebuyer Education Program. LHOP receives additional funding through corporate sponsors and from loan repayments that revolve back into the fund.

II: Description of Product and Delivery Procedures

LHOP issues loans through a collaborative effort with designated partnering banks². These banks have agreed to work within program guidelines and handle several functions that require specialized professional expertise. The guidelines include the following:

- Loans are originated by the partnering bank and are then referred to LHOP for closing cost assistance where appropriate. LHOP does not originate loans.
- The banks underwrite the loans, that is, analyze the application to ensure accuracy of information presented and the borrower's ability to repay. LHOP's review is limited to the \$5,000 maximum exposure for the down payment assistance. LHOP does not assume the role of banker in originating and underwriting mortgages.
- LHOP does not accept applications that involve "creative loan products" such as adjustable rate mortgages, interest only mortgages or unconventional proofs of credit worthiness. All primary loans must be 30 year fixed-rate, "A" loans with a maximum of 3 points.

Borrowers must complete a Homebuyer Training Program offered by LHOP. This training focuses on the acquisition process, finances, and general ownership responsibilities. Upon completion of the course, borrowers work with a real estate agent to identify an appropriate property, and then with a partnering bank to apply for a first mortgage. When those steps are complete, the borrower will be referred back to LHOP to apply for down payment assistance as needed. Successful completion of the course does not guarantee loan program eligibility or the availability of funds. If approved, LHOP's loan is then issued and recorded with the deed. Loan

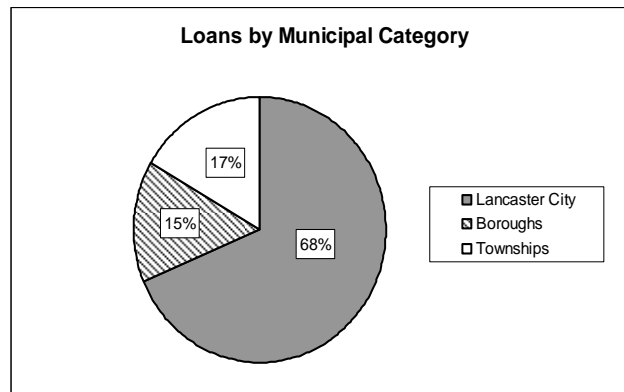
² Partnership Lenders include Citizens Mortgage Corporation, Ephrata National Bank, Fulton National Bank, HomeSale Mortgage Services, PNC Mortgage LLC, Sovereign Bank, Susquehanna Bank PA, USDA Rural Development, and Wachovia Mortgage Corporation

repayment is due in-full upon sale or transfer of the property, or in the event the borrower ceases to occupy the home as their primary residence. The loan is secured by a second mortgage lien, and LHOP must be listed as an additional insured on the Homeowner's Insurance.

LHOP's loan funds may be used for down payment assistance and/or eligible closing costs. The funds are available only in combination with qualified first mortgage loan products offered by Partnership Lenders. The borrower must meet the lender's eligibility and underwriting requirements for the specific primary mortgage product desired.

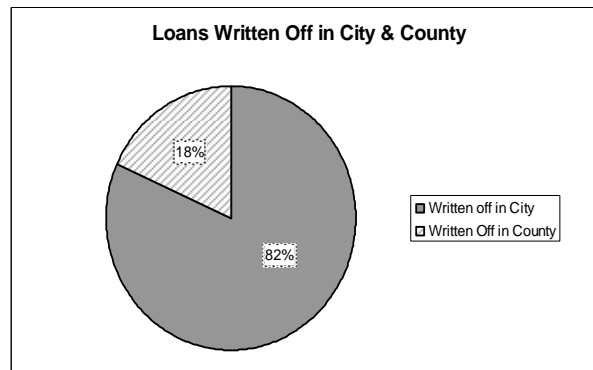
The following charts show the distribution of loans by municipal category.

Chart 2: Loans by Municipal Category



	<u># of Loans</u>	<u>% of Total</u>
• Lancaster City	1,118	68%
• Boroughs	242	15%
• Townships	272	17%
• Loans issued:	1,632	100%

Chart 3: City/County Distribution of Loans Written Off



	<u># of Loans</u>	<u>% of Total</u>	<u>Principle value</u>
• Total loans written off	197	100%	\$768,113.25
• City loans written off	161	82%	\$610,491.87
• County loans written off	36	18%	\$157,621.38

It will be noted that a majority of CHB loans have been made in Lancaster City. This circumstance is driven by both policy and market conditions.

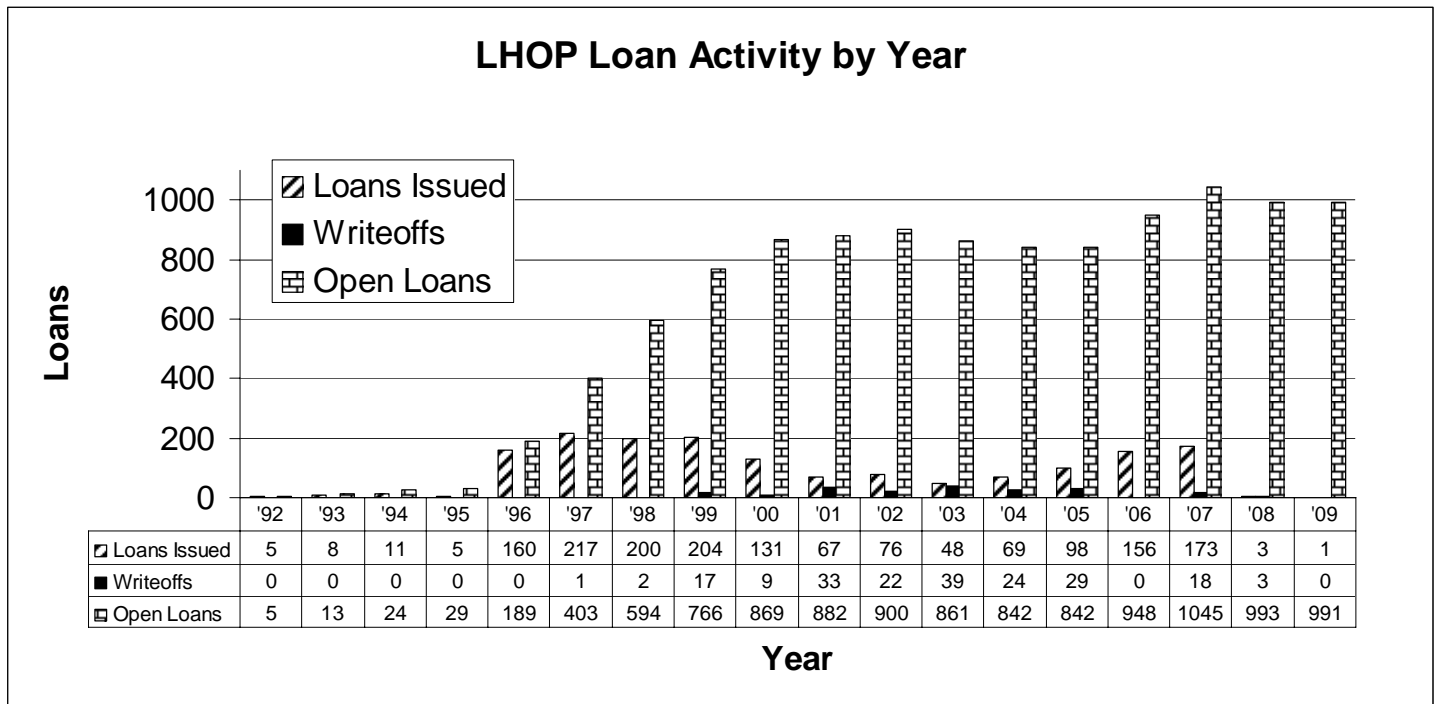
- County and City Comprehensive Plans call for increasing the rate of homeownership within Lancaster City.
- The City has a large inventory of housing stock that meets the requirements of both HUD and the borrowing ability of LHOP’s first time homebuyers.
- LHOP borrowers select the City as their community of choice.

III: Analysis

Of the 197 loans written off by LHOP, 160 (81%) have gone to sheriff’s sales. Being in second position, LHOP does not originate foreclosures, neither can it stop foreclosures. Rather, LHOP works with the primary lender who is in first position to try to secure partial repayment of its loan. However, by the time the property goes to sheriff’s sale, the home owner’s situation has deteriorated to the point where any repayment based on a second position is not likely. The remaining write offs are short sales or properties the bank has assumed ownership of.

The following chart shows LHOP’s write off rate compared to total loans initiated and outstanding.

Chart 4: Loan Activity by Year, 1992 – 2009

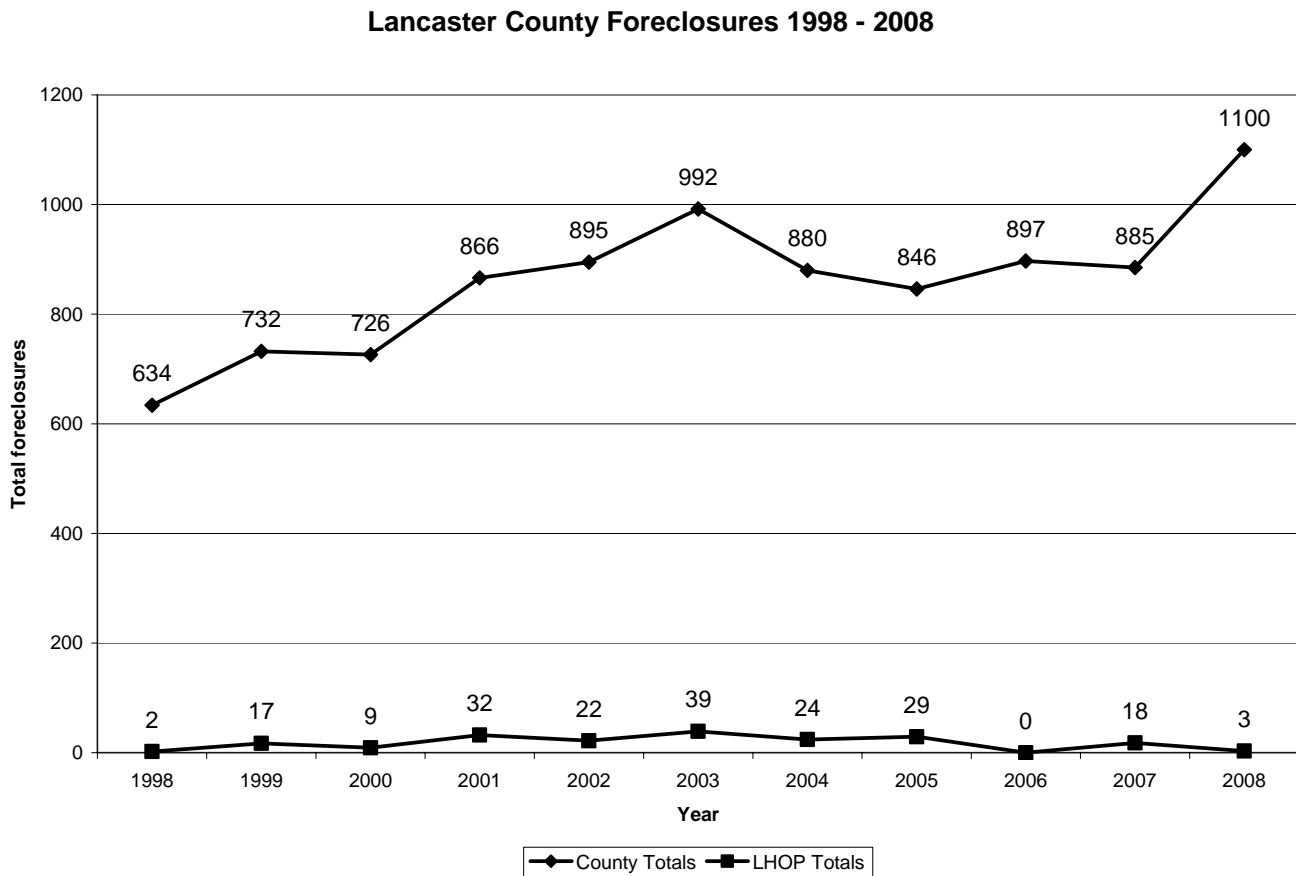


Distinguishing patterns in data record:

- The highest write off rates occurred between 2001 and 2005, which accounted for 147 loans written off, or 75% of the total.
- The years 2006 through 2009 account for a total of 21 loans written off, or 11% of the total.

The raw data on write-offs present an unexpected result: write-offs were much higher in the first half of the decade, when the market was strong, than in the latter years, when the housing market collapsed and foreclosures became a national issue. Analysis of the aging of LHOP’s portfolio indicates that while a small number of loans fail in the first 18 months, most encounter problems four to five years after being issued. Also, as much as a year may elapse between initiation of foreclosure proceedings and the loan being finally written off by LHOP. Thus loans written off during the period 2001 – 2005 tended to have been originated in the late 1990’s and early 2000’s. Loans originating during this period have shown greater stability than those from any other period in the program’s history.

Chart 5: LHOP’s loan write-offs compared to Countywide Foreclosures³



It is interesting to note that LHOP’s increase in write-offs for the years 2001 – 2005 corresponds with a similar spike in countywide data. Clearly, as a subset of the total activity within the County, LHOP’s portfolio is not immune to the larger trends cycling throughout the County. The results from 2001 through 2005 correspond to the earlier period when federal policy and funding promoted home ownership for persons of low to moderate income. Additionally, because of those policies and consequent funding programs, the Partner Lenders could offer primary mortgage products with zero or low down payments. When problems began to appear, however, LHOP tightened its program eligibility requirements. As a result, when broader market foreclosures rose in 2008, LHOP’s write-off rate actually dropped.

³ Source of County data: Lancaster County Office of Prothonotary

IV: Conclusion

For more than a decade, LHOP has provided valuable services to lower income, first-time homebuyers pursuing the dream of homeownership in Lancaster County. This market segment is perceived as risky, and without proper safeguards, loans to these customers may be at greater risk of default than loans in the general market. LHOP has avoided these pitfalls by; A) Providing homebuyer education for prospective clients; B) Working with strong primary lending partners; and C) Participating only in traditional, fixed-rate mortgages and not subprime mortgages vehicles.

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