

**Memorandum**

**To:** Economic and Community Development Commission

**From:** Community Development Manager

**Date:** December 14<sup>th</sup>, 2023

**Re:** Proposed Changes to Housing Rehabilitation Loan Policy

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The purpose of the Housing Rehabilitation program is to provide low interest loans up to \$35,000 for home repair to participants who meet program eligibility standards. The program is focused on low-income individuals and/or individuals living in low-income neighborhoods.

Housing rehab loans are a 1% interest rate deferred loan. Payments are not required until the property is sold. Loans accrue simple interest on the principal balance through the life of the loan. This is a challenge when participants choose to make payments.

The staff recommendation is to put a cap on interest at 50% and allow individuals to pay down on principal as well as interest.

The proposed policy is utilizing language from the replacement housing loan program and would state as follows:

*The interest for this loan shall cease to accrue when it reaches 50% of the Housing Rehabilitation Loan principal balance, unless said Agreement is in default.*

**Example 1:**

This loan has accrued more interest than half the principal balance. This participant is likely selling the property and intending to pay off the loan.

<b>Current Principal Balance</b>	<b>\$9,464.45</b>
<b>Current Interest Balance</b>	<b>\$8,417.97</b>
<b>CURRENT TOTAL BALANCE</b>	<b>\$17,889.42</b>

**Example 2:**

This program participant has been making regular payments on their loan at a total of \$4,024 which has only gone to interest thus far.

<b>Current Principal Balance</b>	<b>\$11,730.60</b>
<b>Current Interest Balance</b>	<b>\$8,353.26</b>
<b>CURRENT TOTAL BALANCE</b>	<b>\$20,083.86</b>

**Summary of Impact on Loan Portfolio**

- Approx \$300k in interest will be forgiven. Current loan portfolio will go from \$7.2 million to \$6.9 million.
- Any individuals who have paid greater than 50% interest will have that balance applied to their principal amount.

**Going Forward:**

- Loans will be maintained in Neighborly where interest and payments are tracked.
- Program participants will receive quarterly loan statements.