

## Meeting Summary

Following is a summary of issues discussed at the DHCD Stat on February 9, 2011. Analysis is provided by StateStat and the Governor's Delivery Unit (GDU).

### Follow-Up Items

- **Emergency Mortgage Assistance Program (EMAP).** As discussed at prior StateStat meetings, Maryland is set to receive \$40 million to assist homeowners in becoming current with back mortgage payments from the federal government through the Emergency Mortgage Assistance Program (EMAP). The program permits a loan of up to \$50,000 for eligible homeowners to assist in payment of arrears, which include delinquent taxes, insurance and up to 24 months of monthly payments on mortgage principles and interest. The agency is reporting that HUD verbally approved its EMAP application and indicated that the agency will be able to independently administer all federal funds received. The agency reported that it is currently working with HUD to formalize a budget, finalizing administrative documents, and having an agency vendor customize software to administer the program. The agency is still awaiting a start date from HUD.

### Legislative Audit

- **February 2009 Audit (Office of the Secretary, Division of Finance and Administration, Division of Information Technology).** One of the four audit findings made in the February 2009 audit are still reportedly unresolved.
  - **Finding 3: DHCD Had Not Established Adequate Accountability and Control Over Equipment.** The February 2009 audit found that equipment balance recorded in State accounting records exceeded the amount recorded in equipment control records by \$1.5 million. The agency is currently reporting that there is a conversion amount of approximately \$600,000 that has yet to be accounted for, including \$320,000 of this amount is attributable to IT software. The agency has improved internal procedures to ensure that agency and State accounting records are frequently reconciled, and further reported that a corrective action plan to resolve this audit finding has been implemented, and that it expected this finding to be resolved by the end of June.

Unresolved Legislative Audit Findings, Office of the Secretary, Division of Finance and Administration, Division of Information Technology, February 2009		
Issue	Finding	#
Property	DHCD Had Not Established Adequate Accountability and Control Over Equipment	3
* Repeat Finding		

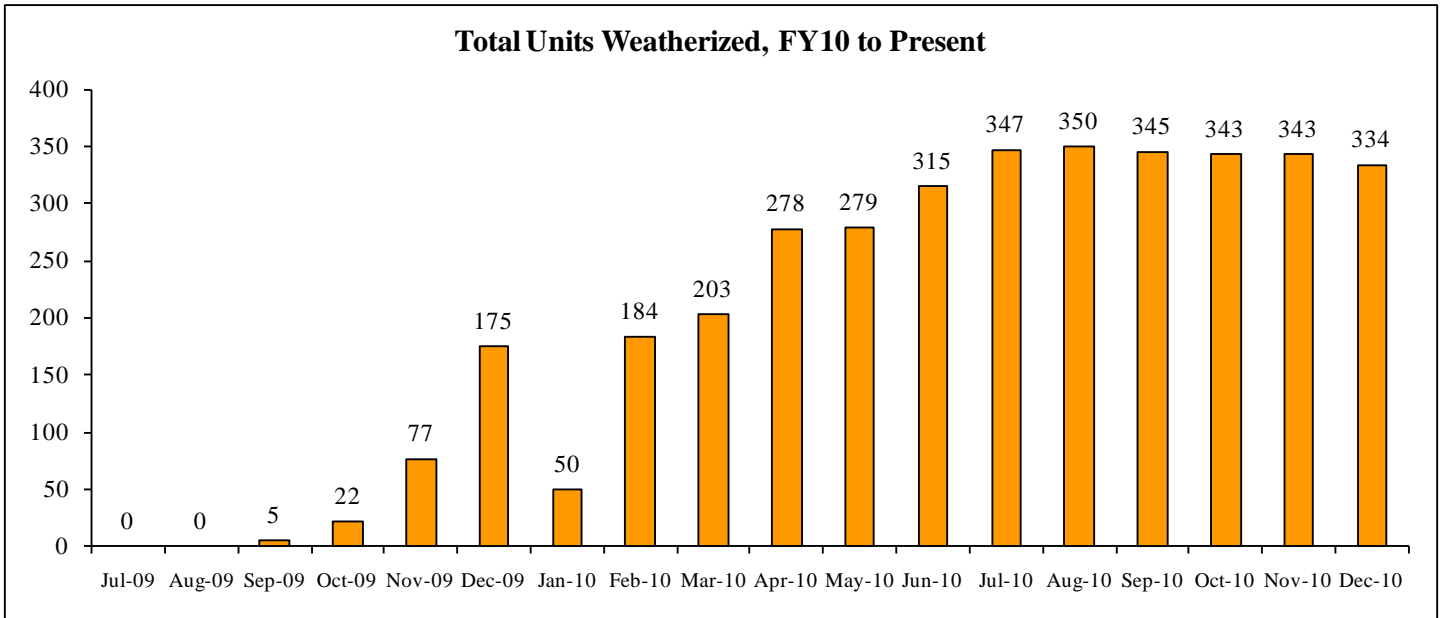
- **March 2009 Audit (Division of Development Finance, Division of Credit Assurance, Division of Neighborhood Revitalization).** Of the eight findings made by OLA in the March 2009 audit, three findings remain unresolved.

- ***Finding 1: Records for Cash Flow Loans totaling approximately \$227 million were incomplete.*** This audit finding has been made on every legislative audit since 1998. OLA is suggesting that the agency implement a comprehensive cash flow loan system, as they found that no single source within the agency provided a comprehensive record of cash flow balance and related loan activity. The agency issued an RFP and awarded a contract for a State Asset Servicing System (SASS) to Nortridge Loan Systems on October 21, 2009. Implementation of the system began soon after. Phase I data conversion was completed on November 29, 2010, marking a major milestone to full implementation. Currently, weekly web sessions are being held between the agency and the vendor to keep the project on track. DHCD provides quarterly reports on implementation of SASS to DoIT, who according to the agency was satisfied with the progress and management of the project as of their last meeting on December 8. Phase 2 of the project is underway, and is set to be completed by the end of FY11.
  
- ***Finding 3: DHCD did not take Appropriate Actions on a Defaulted NBWP Loan with an Outstanding Balance of \$688,000. In Addition, DHCD Loaned an Additional \$378,000 so the Borrower Could Pay Certain Operating Costs and Avoid Potential Bankruptcy.*** The agency initially made a \$385,000 loan to a borrower in 1999. At the time that the most recent legislative audit was performed, this loan held an outstanding balance of \$688,000, which made up close to 24% of the total \$2.8 million delinquency in NBWP loans. In the agency’s fifth quarter status report, it was indicated that the agency held a lien on a piece of real estate held by the borrower, but that Baltimore City held a higher priority lien on the same property. The agency reported that they can’t take action on the property in question until Baltimore City does. The agency has communicated with Baltimore City, and expects action on the property by the City within the next 90-120 days.
  
- ***Finding 5: DHCD did not Obtain Sufficient Documentation of Additional Funding Commitments from Other Sources and did not Always Ensure that Recipients of Financial Assistance Submitted Final Reports as Required.*** For the Community Legacy and Neighborhood Business Works programs, the audit found that the agency was not obtaining documents to support the validity of outside funding commitments for a number of projects. Additionally, projects receiving financial assistance were neglecting to submit final reports as required, which in some cases were 1-2 years past due. The agency reported in its fourth quarter report to OLA that project managers for both CLP and NBWP carefully reviewed all project files to ensure that documentation of outside funding and final reports were received. Projects that didn’t contain proper documentation received calls and e-mails from the agency, including warnings that if the required materials weren’t submitted, the project would lose eligibility for the FY11 program. The agency reported that it believes that its corrective actions to address this audit finding have been effective, and that this audit finding is resolved in their estimation.

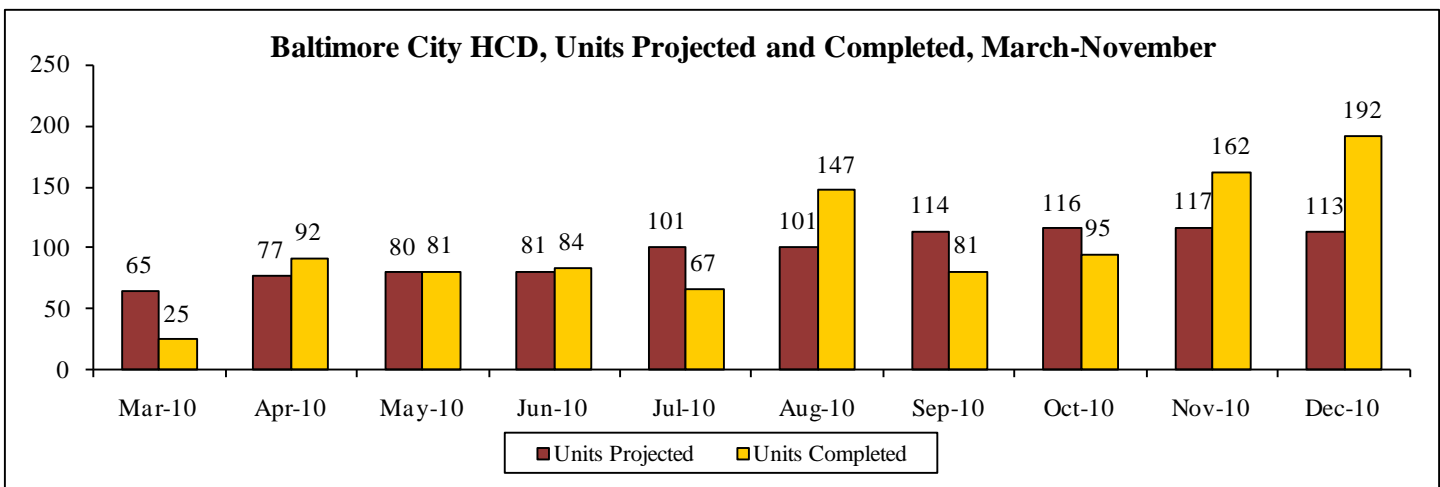
<b>Unresolved Legislative Audit Findings, Division of Development Finance, Division of Credit</b>		
<b>Issue</b>	<b>Finding</b>	<b>#</b>
Multifamily Projects	Records for Cash Flow Loans Totaling Approximately \$227 Million Were Incomplete*	1
Neighborhood Revitalization Grants, Loans, and Tax Credits	Appropriate Collection Efforts Were Not Taken and Additional Funds Were Awarded to a Delinquent Borrower*	3
	DHCD Did Not Always Obtain Documentation of Additional Funding Commitments and Required Final Project Reports Were Not Always Obtained*	5

**Weatherization**

- **Production.** The agency continued to weatherize homes at an elevated level in December, producing 334 units. December marked the seventh consecutive month that the agency produced more than 300 units.



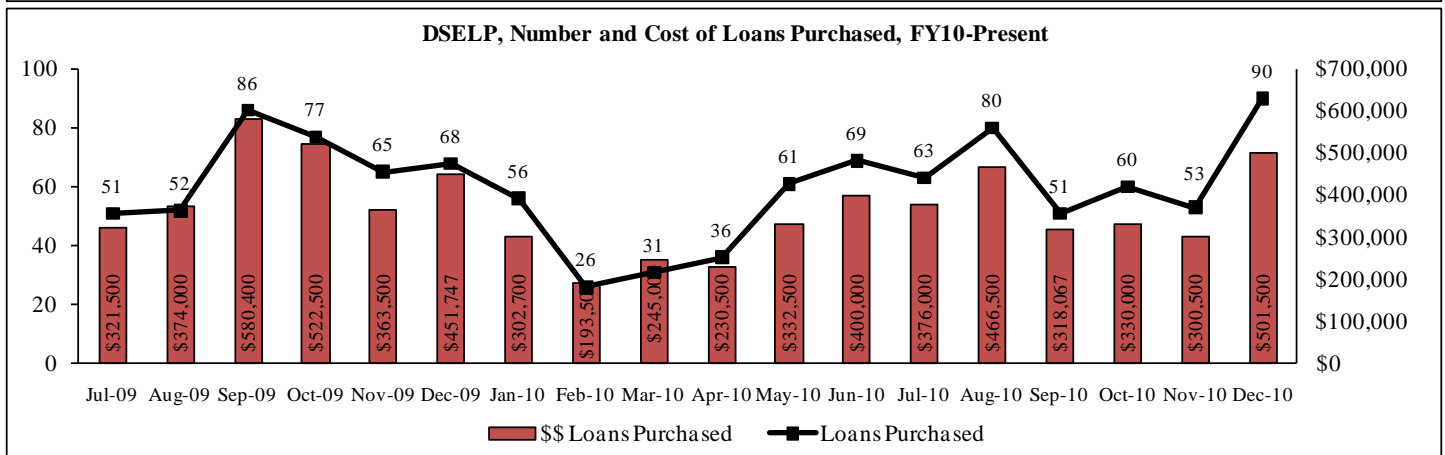
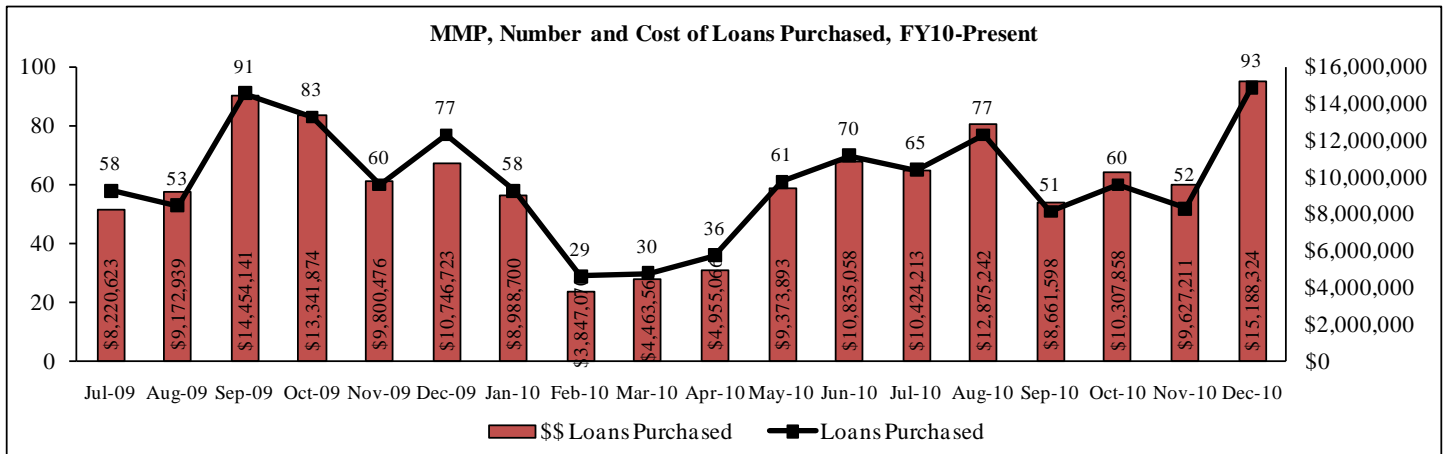
- **Baltimore City HCD.** Baltimore City exceeded its production projections in Baltimore City by a wide margin for a second consecutive month. Baltimore City accounted for 57% of total unit production in December. One cause of improved performance in the City is use of the peer-to-peer program in the Westport community, which the agency is reporting will continue. The panel may wish to ask the agency what caused the increase in units in Baltimore City, and inquire into whether peer-to-peer activity will be targeted toward another City community in the near future.



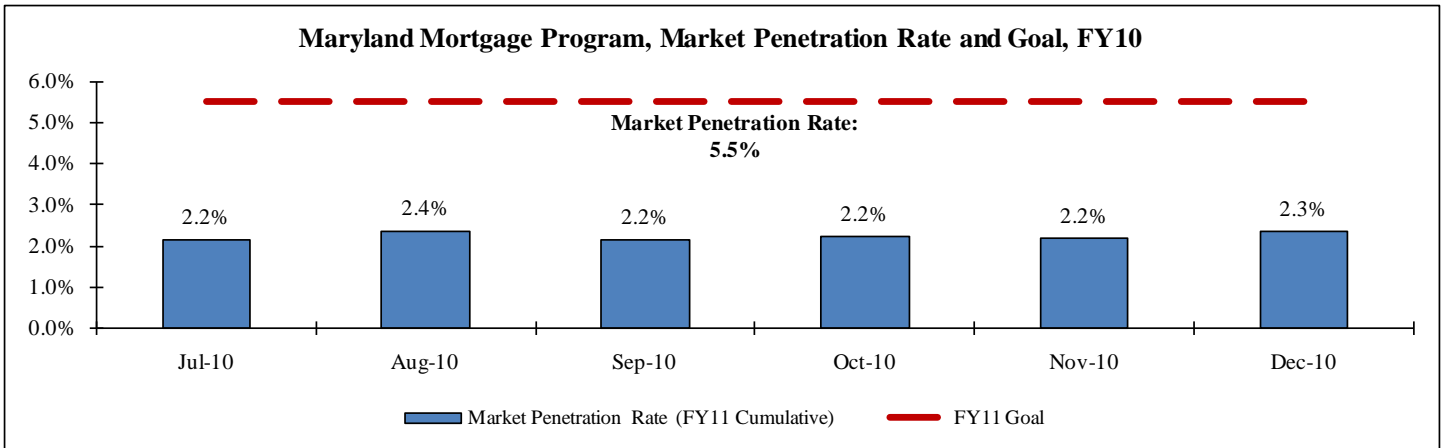
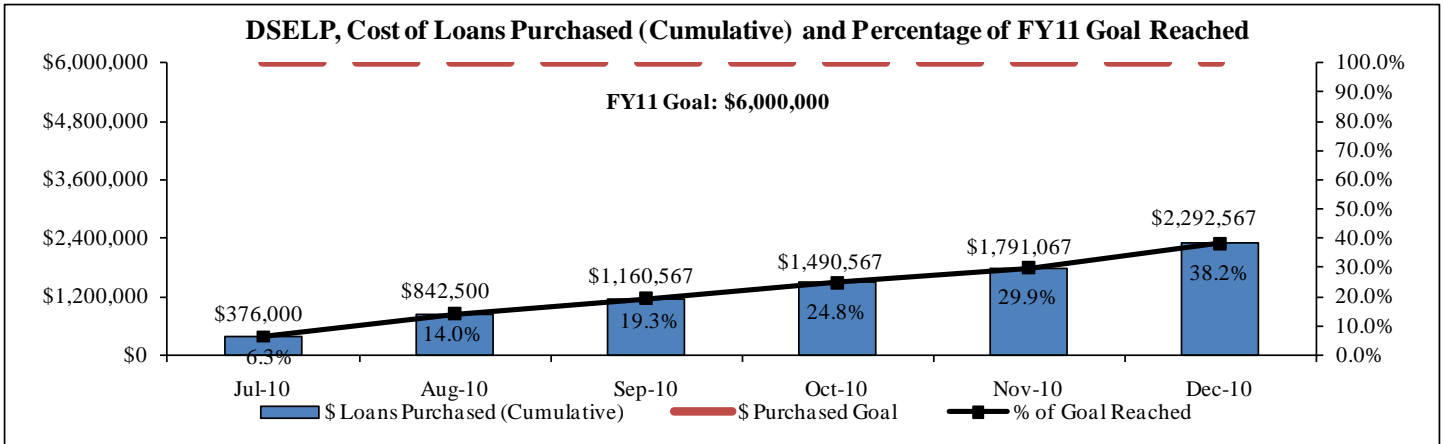
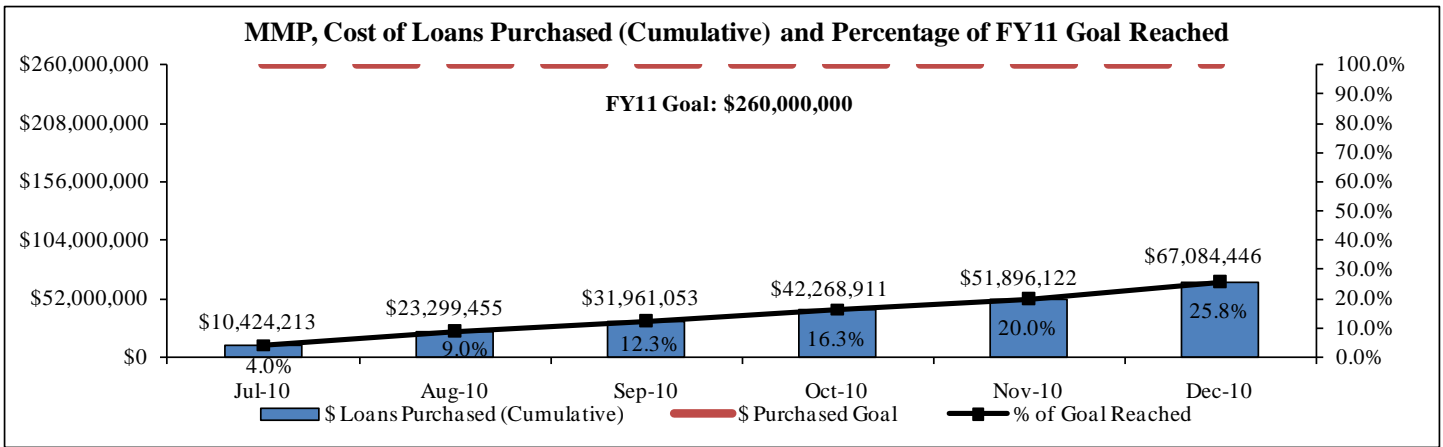
- **DOE Audit.** The agency reported that it had responded to DOE’s request for over 35 categories of information, providing over 1,000 pages of documentation in response. In preparation for the upcoming IG audit the agency is reporting that it contacted every LWA manager, and in some cases the directors, to review what information they should be reviewing prior to the IG audit. DOE’s entrance interview for the audit began on January 18, and was scheduled to be completed on January 21. The preliminary sites to be visited are Baltimore City, Montgomery County and Prince George’s County.

## Maryland Mortgage Program

- Effectiveness of Changes.** The agency announced at the August StateStat meeting that it was making a number of changes to improve the performance of the Maryland Mortgage Program (MMP). Among the changes made was the lowering of interest rates to 4.25%, the increase of the maximum loan offered by the Down Payment and Settlement Expense Loan Program (DSELP) from \$3,500 to \$5,000 and advertising efforts. The agency also began conducting quarterly meetings with its lending partners. Both MMP and DSELP performance for the number and amount of loans purchased in December spiked to their highest level of FY11 to date. The agency reported that it believed that loans in January would see a bit of a decline due to the formal roll-out of the mortgage-backed security platform, but that reservations for the program were near \$5-\$6 million per week. The agency expects continued growth to close the fiscal year.

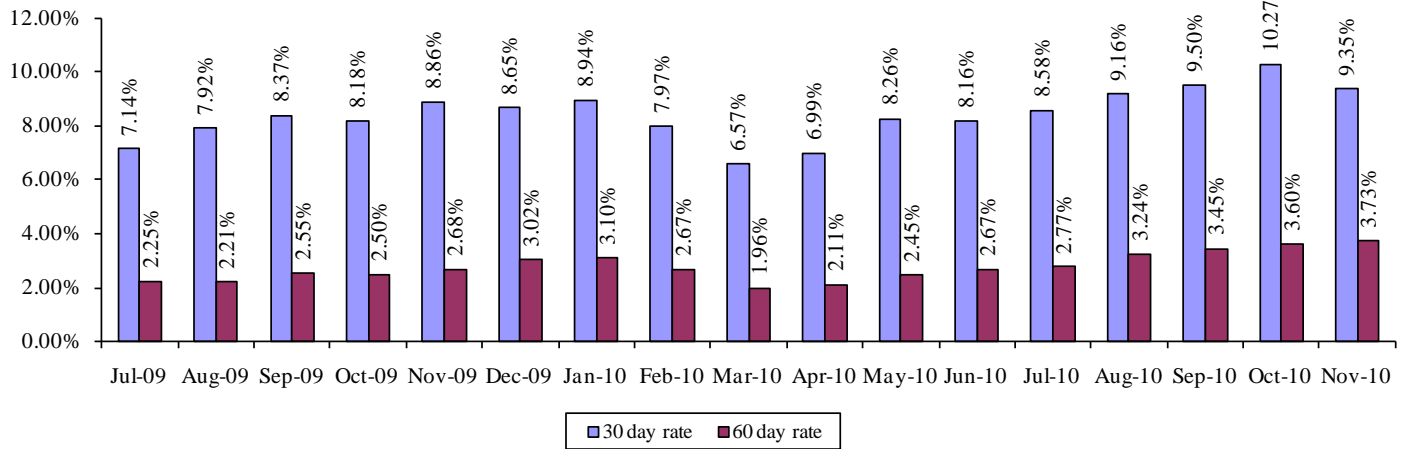


- Goal Setting.** Despite the visible progress made by MMP and DSELP in December, through half of FY11 the agency remains well behind pace to meet goals for the amount of loans purchased. MMP is at just 26% of its goal of its \$256 million goal for loans purchased, while DSELP is at 38% of its goal of \$6 million in loans purchased. As discussed in prior StateStat meetings, the agency opted not to lower its market penetration goal for MMP from 5.5%, instead changing the basis for the penetration rate from the whole State to just jurisdictions with exclusively targeted areas. Even after this change, the agency's 2.3% market penetration for MMP in FY11 to date is less than half of its 5.5% goal. The agency reported that while it expects to close the fiscal year strong and increase performance in the cost of loans purchased, it will likely fall short of its goal. The agency believes that the goal set may have been overly ambitious, as the transition to a mortgage-backed security platform has taken longer than originally anticipated. The agency also commented on the difficulty of setting goals for MMP, as private market sales and private interest rates are variables that affect the interest rate that MMP can offer.



- Thirty and Sixty Day Delinquencies.** After reviewing sharp increases in 30-day and 60-day delinquencies in the Maryland Mortgage Program, the agency has concluded that jumps in 30 and 60-day delinquencies are above standard seasonal variations. The agency, along with its delinquency and loan modification contractor Bogman, Inc., have reviewed their processes and procedures in handling delinquent loans and have made the changes listed below. The agency reported that it has begun the process of securing a second sub-servicer to work alongside Bogman in handling delinquent loans. The agency is also adding staff to increase call levels to delinquent borrowers, distributing door hangers and engaging in other outreach activities as part of its plan to reduce delinquency rates.

### Mortgage Delinquencies, MMP, 30 Day and 60 Day Rates



### MMP: Efforts to Improve 30 and 60-Day Delinquency Rates

1. Bogman reorganized its collection unit and added two additional staff
2. Bogman tightened collections protocols and DHCD modified strategies related to partial payments
3. Bogman has streamlined its procedures for approving short term payment plans
4. Bogman designed a new post card to attract and motivate delinquent borrowers to contact them
5. DHCD added staff to Bogman to reach new 30-day delinquent borrowers to improve and alter outreach efforts
6. DHCD has instituted formal weekly calls with Bogman to monitor progress and results
7. DHCD discussed EMAP with Bogman and will mail info on program to all delinquent borrowers about EMAP
8. DHCD is in the process of selecting a second sub-servicer to augment its servicing resources