



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Leslye Krutko
Larry Lisenbee

SUBJECT: SEE BELOW

DATE: June 5, 2006

Approved

Date

6/9/06

COUNCIL DISTRICT: City-Wide
SNI AREA: N/A

SUBJECT: AGREEMENT WITH AMERINATIONAL COMMUNITY SERVICES INC. TO PROVIDE LOAN SERVICING AND FUNDS-DISBURSEMENT SERVICES TO THE HOUSING DEPARTMENT AND A RELATED BUDGET APPROPRIATION ACTION

RECOMMENDATION

It is recommended that the City Council:

- a) Adopt a resolution authorizing the City Manager to negotiate and execute a five-year agreement starting July 1, 2006, or thereafter, with AmeriNational Community Services, Inc., to provide loan servicing and funds-disbursement services to the Housing Department, in an amount not to exceed \$250,000 for the first year and subject to annual appropriations thereafter.
- b) Adopt the following 2006-2007 Appropriation Ordinance amendment in the Low- and Moderate-Income Housing Fund:
 - 1) Increase the NonPersonal/Equipment appropriation by \$250,000.
 - 2) Decrease the Ending Fund Balance by \$250,000.

CEQA: Not a project.

OUTCOME

Approval of this contract will ensure that the City is provided with cost-effective and professional loan servicing for its portfolio of housing rehabilitation and first-time homebuyer loans and that customer service to construction contractors doing work under the Housing Rehabilitation Program is improved by reducing delays in issuing payment checks.

BACKGROUND

Since its formation in 1988, the Housing Department has used the services of a private company to both: (1) collect payments on amortizing Housing Rehabilitation Program loans; and (2) disburse payments to construction contractors performing work paid for through Rehabilitation loans. The Housing Department's current contract with its loan servicing company – AmeriNational Community Services, Inc. – expires on September 30, 2006.

ANALYSIS

It is common for public sector lenders to use outside companies for loan servicing and funds disbursement, for two reasons. First, such companies can regularly issue payment checks to construction contractors within 48 hours of receiving the payment request. This is an important customer-service consideration for these contractors, most of which are minimally capitalized small businesses. Secondly, the collection of monthly principal and interest payments is a routine function for the loan servicing company that can be performed more cost-effectively by loan servicing companies than could be performed by City staff, since the enormous volume of loans that they service results in significant efficiencies of scale.

Scope of Services

The scope of services that the Department proposes for the loan-servicing/funds-disbursement contract includes:

- Provide 48-hour check-issuance service to all Housing Rehabilitation Program construction contractors, grant-funded and loan-funded alike.
- Service the entire portfolio of amortizing and deferred Housing Rehabilitation and Homebuyer loans, including:
 - Providing compliance monitoring services related to insurance coverage and payment of property taxes for all loans.
 - Providing verification that homeowner borrowers are still occupying the property for all loans.
 - Collecting payments on amortizing Housing Rehabilitation Program loans.
 - Conducting periodic reviews of deferred Housing Rehabilitation loans to determine whether borrowers have the financial capability to start making regular loan payments.

Housing Department staff will continue to perform those functions relating to monetary and technical delinquencies in the Rehabilitation/Homebuyer loan portfolio that cannot be resolved by the contractor, up to and including foreclosure as the situation warrants. Staff will also be responsible for collection on loan pay-offs, subordination of City loans to new first mortgages, assumption of loans by heirs of deceased borrowers, and similar duties requiring case-by-case analysis.

It should also be noted that all functions associated with servicing Project Development Program loans made to developers will continue to be performed by the Housing Department and are outside the scope of this proposed contract.

Contractor Selection Process

On February 10, 2006, the City issued a Request for Qualifications (RFQual) for Loan Servicing and Funds Distribution Services. The RFQual was posted on the Purchasing Division's website, and paper copies were mailed to companies nationwide that provide such services.

By the March 16, 2006, deadline, only AmeriNational Community Services, Inc., had submitted a proposal in response to the RFQual. Because ACS met the minimum qualifications specified in the RFQual, the competitive process was terminated and staff proceeded to start contract negotiations with that company.

ACS, a subsidiary of American Bank of St. Paul (Minnesota), provides a wide variety of loan servicing and funds distribution services to public agencies nation-wide. The company's closest branch office, which is the Department's primary point of contact, is located in Downey, California.

Cost

The proposed contract with ACS does not specify a dollar amount. Rather, it includes a schedule of one-time-event charges and monthly per-account fees associated with the various services to be provided. Staff estimates that the contract will cost the City \$710,000 over its five-year term, taking into consideration:

- Projected levels of Housing Rehabilitation Program activity requiring funds-disbursement services.
- Changes in the size of the loan portfolio resulting from new loans being made and pre-existing loans being paid off.
- Fee increases (the draft contract limits such increases to changes in the San Francisco Bay Area Consumer Price Index, which staff has projected to be an average annual increase of 3%).
- The need to maintain strict segregation of accounts by funding source.

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At this time, the Administration is recommending \$250,000 of funding for only the first year of the contract. This amount exceeds one-fifth of the estimated five-year total because of one-time set-up costs for servicing existing loans. The contract will be written to make it subject to annual appropriation actions.

PUBLIC OUTREACH

The RFQual was posted on the Purchasing Division's website from February 10, 2006 to March 16, 2006, and paper copies were mailed to companies nationwide that provide loan services.

COORDINATION

Preparation of this memorandum was coordinated with the City Attorney's Office .

COST IMPLICATIONS

The cost of the contract will be covered by Low and Moderate Income Housing Fund (443), and there is no impact to the General Fund.

BUDGET REFERENCE

The City Council approval of this recommendation will appropriate the funds for this contract in the budget for Fiscal Year 2006-07.

CEQA

Not a project.


LESLIE KRUTKO
Director of Housing


LARRY LISENBEE
Budget Director

For questions, please contact Mr. Mike Meyer, Assistant Director of Housing, at 408-535-3855.