

# Contract Loan Services

November 2005



## Program Highlights:

- Provides all necessary services to establish and maintain local loan programs.
- Leverages FP capacity and existing relationships to streamline implementation.
- Minimizes program expense to local participants.
- Allows easier access to multiple assistance programs with lower costs to borrowers.
- Greater program accountability and management capacity to local participants.
- Fast, highly adaptable and very cost-effective.
- Available throughout Colorado.

## Funding Partners

### Who is Funding Partners?

Incorporated in 1996 as a 501c3 non-profit and subsequently certified as a Community Development Financial Institution (CDFI) in 1999 by the Department of the Treasury, Funding Partners (FP) is governed by a volunteer Board of Trustees representing human service providers, housing agencies, public officials private enterprise and financial institutions.

As a CDFI, FP is charged with creating access to capital and credit within underserved markets and among target populations throughout Colorado. Attracting long term investments from units of government, corporations, foundations, associations and banking institutions, FP

pursues its mission through lending activity which places below-market capital into projects and entities that expand availability of residential units deemed affordable for very low to moderate-income households.

Administering two revolving loan pools, FP is able to assist first-time homebuyers with down payment assistance through the House to Home Ownership (H2O) Program®, while the Mammel Affordable Housing Loan Fund (MAHLF) provides pre-development, acquisition and gap financing to individuals and organizations that create, rehabilitate or otherwise preserve both rental and for-sale housing for families below the median

income level. FP also provides third-party loan servicing for other entities seeking to reach similar markets with greater efficiency at minimal expense. Ultimately, FP provides a highly effective conduit to connect households with traditional financial service providers.

FP has originated over 900 down payment assistance loans, while funding 45 projects for aggregate loan production in excess of \$15 million, encompassing over 2,500 residential units.

With minimal limitations imposed by sources of funding, FP loan products are tailored to meet the needs of individual projects and those entities that serve our target markets.

### Program Overview

Funding Partners is able to work with public entities, non-profit agencies and private sector organizations interested in providing financial services to a defined market. Due to the complexity and cost of establishing and maintaining an effective program, such entities rely upon third-party administration to enhance overall performance.

Through its own loan programs, Funding Partners has developed highly efficient systems and procedures to deliver highly adaptable products and services, which is achieved through high production volume. This

economy of scale provides further benefit, in that full-time staff specialists develop expertise in critical areas, such as: financial products and markets, industry trends, regulatory requirements, risk analysis and mitigation, control mechanisms, documentation and reporting.

Additionally, Contract Services clients are able to enjoy faster implementation, greater market exposure and industry acceptance by leveraging FP systems and relationships already in place. Clients are able to define specific markets and populations their program will target, level of procedural

involvement and reporting requirements. FP then provides a draft policies, program documentation and sample reports for final approval by the client.

Upon roll-out, FP assumes all responsibilities defined within a service agreement. In most cases the client assumes responsibility for marketing the program, then simply refers prospective participants and/or their agents to FP for service delivery.

Because FP is a not-for-profit agency, the cost of services is minimal to the end user and is often free of charge to our client agencies.

## Why Use a Third-Party?

While there are numerous public and private entities committed to delivering financial resources to under-served markets, there are an equal number of barriers to a fostering a sustainable program. Utilizing a third-party agent can greatly enhance the speed of implementation and delivery, while minimizing expense and inherent risks.

To initiate a program, an agency will need to develop internal policies and systems to insure adequate control. This can be greatly complicated by the desire to balance the perceived needs of the target market against constraints imposed by financial markets, regulatory agencies and other program participants. Primary barriers include: delivery of services under terms favorable to the intended market; risk assessment and mitigation;

service integration with existing programs and distribution systems; and, development of market acceptance among the target market and referral network

Third parties also provide an economy of scale that allows an agency to deliver services at the lowest cost. With a growing expectation for programs to achieve self-sufficiency; programs unable to cover the costs of delivery through revenue generation are less likely to continue.

Conversely, it is often the intent of such a program to provide a service for which the end user is unable to pay full value. Overcoming this dilemma can be achieved through volume, allowing the costs to be spread across a larger number of participants. However, local programs typically lack the consistent activity necessary to

achieve sufficient scale.

Expertise in identifying opportunities, conditions, constraints, regulatory issues and risk management strategies can be another significant barrier to a local program. The ability to hire in-house expertise is limited by the revenue capacity of the program, while retention of that expertise is dependent upon internal and external factors unrelated to the program itself.

Financial and regulatory control procedures present another significant challenge. Insuring that all funds are properly accounted free of undue influence and in accordance with underlying agreements is just as critical as demonstrating compliance to local, state and federal regulations. Enhancing management control capacity is a primary function of FP.

**Funding Partners can help your agency, company or association deliver financial services and products efficiently, effectively and with a high degree of integrity.**

**Our programs are compatible with most major lending institutions, Fannie Mae, Colorado Division of Housing, Colorado Housing & Finance Authority and people they seek to serve!**

Since funding for third party services is derived through outside sources, FP does not impose restrictions upon the use or eligibility definitions under a local program. Rather, FP will work with the local agency to determine whether a proposed program is compatible with our mission statement, then proceed with design elements upon favorable determination.

Working with the local agency, FP will provide valuable input in the programs design stages to identify and strengthen weaknesses that might otherwise limit effectiveness. This may include design elements that are contrary to

government regulation, lack compatibility with financial markets or complimentary loan products and services (secondary markets), or present significant limitations to monitoring and enforcement.

Ultimately, FP will help design a program that is fair and equitable to all parties, while maximizing the benefits to the greatest number of potential participants.

Since FP administers its own assistance programs across Colorado, earning a reputation for professionalism and efficiency, local agencies are able to achieve immediate market acceptance. Through

association, agency programs can be seamlessly integrated with other programs, while participants and referral sources will enjoy the lower cost and convenience of one-stop shopping

As a leader in community development finance, FP is able to deliver services and programs that integrate and leverage multiple resources. In most partnerships, FP is able to design a continuum of services to incorporate economic development objectives, housing development, acquisition and rehabilitation of existing structures or neighborhoods and enhancing home ownership and retention.

## Implementation

FP is strongly committed to local involvement, from program definition and design through routine monitoring and modification. To assist that process, FP has developed sample loan policy and procedures manuals, debt instruments, program documents and marketing materials that can be modified to reflect specific requirements and conditions of the local market.

Additionally, FP has developed and refined reporting documents that greatly enhance an agencies ability to evaluate program performance, while simplifying the process for completing internal financial reports. Many of the reports in use can be further modified to reflect specific metrics required by the local agency.

To expand local capacity for identifying needs and creating awareness of assistance

programs, FP assumes a lead role in program implementation. Potential candidates and referral sources are directed to contact FP with specific questions and initiate the formal process. Upon review and eligibility verification of the information provided, FP will forward a tracking form to the local agency for monitoring purposes. If necessary, the local agency will be asked to provide a final determination of eligibility should an applicant fall outside the standard program parameters.

FP delivers a formal notice of eligibility, which reiterates terms and conditions of the assistance. Where an applicant is deemed ineligible, a written notice is delivered to explain why the application is denied.

All loan instruments are generated by FP and delivered electronically to the referral

source for presentation and execution by the applicant. Funds transfers are executed electronically direct to the disbursement agent prior to settlement of the transaction. FP reviews and retains all original documents in safe deposit, which are available for inspection by the local agency.

Depending on the program design, FP issues billing statements, posts payments executes subsequent disbursements, issues all necessary reports, handles all participant inquiries, processes requests for information, facilitates outside audits and completes final disposition.

As a mission-driven organization, the fee for FP services is well below market value and is often collected as a one-time charge at the time of settlement. High volume and efficiency make it happen!



**Funding Partners offers two methods of partnership:**

**Loan Fund Investor—You determine how, where and who receives assistance, FP assumes all risks.**

**Service Contract—You determine how, where and who receives assistance, You assume all risks.**

**Contact us to determine which form is best for you!**

## Reporting

A key ingredient to a successful program is data management. With complete, accurate, and timely data, local agencies are better able to demonstrate value of the program. This capability is also necessary to compete for scarce resources, identify changing conditions and manage the program with greater integrity.

As a third party service provider, FP will provide the local agency the necessary tools without the added personnel burden. Since most program designs call for FP involvement from the initial stages through final disposition, FP will collect and retain relevant data that is delivered in a clear, concise format. Al-

though monthly reporting is standard, FP is in the process of developing a web-based application that will allow client agencies to retrieve data on demand, with electronic statements for enhanced portability.

In addition to an annual independent audit of financial condition and procedural compliance, FP provides the following reports. (frequency in parenthesis)

*Qualification Worksheet* (Upon submission) - FP will forward a summary of personal detail, confirmation assistance terms and conditions to be offered and request for policy exception, if necessary.

*Production Report* (Monthly) - Detail and summary of cumulative program activity that shows demographic, geographic and assistance metrics. Statistical measurements provide current and historical references to facilitate trend analysis.

*Financial Report* (Monthly) - Program activity reporting for the period that shows account aging, invoice and payment activity, portfolio monitoring and reimbursement request.

*IRS Reporting* (annual) - To comply with federal regulations, payments of mortgage interest are reported to both the IRS and borrower in January of each year for prior year activity.

## **Funding Partners**

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**Creating Access to Capital &  
Credit To Low-Income  
Communities Across Colorado**



Funding Partners is committed to serving the needs of households earning less than the median income, often described as our primary workforce where the prevailing wage is \$18 per hour, or less. As a state, Colorado attracts new residents from around the country and throughout the world because of the mild climate, dramatic scenery and vibrant lifestyle. Unfortunately, this dynamic forces the cost of real estate to escalate faster than prevailing wages, ultimately reducing the buying power of the typical family: smaller housing units with fewer amenities. This also causes migration to outlying areas that are farther from work, school, public facilities and service providers, further aggravating an already strained transportation and public infrastructure systems.

This declining sense of community can't be eliminated, but is effectively addressed through FP and complimentary programs.  
Learn more and get connected!

Visit our website at  
[www.fundingpartners.org](http://www.fundingpartners.org)

## Sample Programs

Programs can be designed to achieve different objectives and reflect various market conditions. Here is sampling of how FP has worked with both private and public interests to meet these expectations.

- The City of Boulder recognized a need to extend greater subsidy to specific home ownership candidates. In 2000, the City invested funds with FP to deliver a down payment and closing cost assistance program equal to 15% of the home purchase price. This amount allows most borrowers to eliminate mortgage insurance and defer assistance loan payments for up to 10 years. To date, 49 loans have been issued for \$1.3million, where the initial investment has been recycled twice with no losses.
- Colorado bank affiliates of First National of Nebraska were eager to implement an employee retention program to reward loyalty and reduce costs associated with turnover. Through their HR departments, these banks were able to offer the FP Employee Home Ownership Program (EHOP)<sup>®</sup> down payment assistance program, whereby a portion of the loan is forgiven each year the employee remains with the company. As with other benefit offerings, the Human Resource department merely administers eligibility and monitors service providers, rather than assuming the role of employer/lender. Since inception, the program has been recognized as a model workforce initiative and generated considerable goodwill for the company.
- The Colorado Mountain Housing Coalition, a consortium of public housing agencies in resort counties, received an appropriation of federal funds to support down payment assistance and development of housing units designated for households that comprise both essential and service-sector workforce. In this case, households earning up to 160% of the Area Median Income, which reflects the elevated real estate market.  
  
Administration of the funds was problematic, as inherent conflicts of interest, capacity and expertise presented significant challenges. Through FP, the Coalition was able to implement the programs immediately, using the leverage of existing program models.
- Housing Resources of Western Colorado in Mesa County was the designated recipient of funds derived from a settlement of environmental claims against a West Slope operator. The funds were designated to support a program whereby existing fireplaces would be replaced with higher efficiency woodstoves to improve air quality. For several years, the funds sat idle as HRWC tried to secure matching funds and a loan fund administrator able to hold down costs.  
  
In 2005, FP helped launch the program, using an existing model that makes the program very attractive to home owners. Additionally, discretionary loan fund capital was set aside by FP to expand availability of the program to more households.