Neighborhood Business Development Program

Annual Financial Report

As of June 30, 2010

DHCD
Maryland Department of Housing and Community Development

Neighborhood Revitalization
www.mdhousing.org

Martin O'Malley, *Governor*
Anthony G. Brown, *Lt. Governor*

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DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

NEIGHBORHOOD BUSINESS DEVELOPMENT PROGRAM
Operating as NEIGHBORHOOD BUSINESSWORKS

ANNUAL FINANCIAL REPORT
June 30, 2010

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OVERVIEW

This report summarizes the financial status of the Neighborhood Business Development Program (NBDP) as of June 30, 2010, including the following information required by the 2010 Joint Chairmen's report for all outstanding NBDP loans:

- An accounting of all delinquent or defaulted loans incurred during the period covering July 1, 2005 through June 30, 2010;
- The final outcome or current disposition of delinquent or defaulted loans including the number of days and amount delinquent and any amount written or charged off as uncollectible;
- Specific actions taken by the Department of Housing and Community Development (DHCD) to collect payment or restructure loans identified as delinquent or in default in the report; and
- A summary of DHCD's loan delinquent collection practices and procedures for NBDP.

Program Description

During the 1995 legislative session House Bill 404 established the Neighborhood Business Development Program (NBDP) as the first Smart Growth program aimed at improving the economic well-being of targeted Maryland communities that had experienced disinvestment and needed to upgrade social and economic conditions. NBDP currently operates under the name Neighborhood BusinessWorks (NBW).

The purpose of the NBW program is to fill a public need by providing flexible, subordinate gap financing to small businesses starting up or expanding in designated sustainable communities throughout Maryland that cannot otherwise gain access to affordable capital through the private market to finance the entire project. NBW loans therefore carry more risk than the private market in order to fulfill the public purpose of stimulating economic growth in areas significantly in need of revitalization.

NBW loans and grants are made to Maryland-based small businesses, local development corporations, microenterprises, or nonprofit organizations whose activities contribute to the broader revitalization of the targeted sustainable community. Projects often include the rehabilitation and reuse of long-vacant buildings in older and historic business districts and the provision of needed goods or services to local area residents. In addition to the revitalization purpose, NBW business investments also result in new and sustained jobs as well as increased tax revenues for local jurisdictions and the State.

Financial Stewardship

DHCD has a longstanding record for responsible stewardship of resources. In FY 2010, DHCD invested approximately $550 million in housing and community development activities while receiving less than 1% of this amount from State general funds. DHCD is very nearly a self-sustaining agency because of the special fund revenues generated through effective management of DHCD's portfolio of housing and community development loans and federal funds.

In all of DHCD's housing and community development programs, staff work hard to maintain a balance between mission -- filling financing gaps to serve a public purpose where the private sector will not -- and fiscal responsibility to maintain financially-sustainable programs. Program guidelines, underwriting, program monitoring and asset management all play a role in maintaining this balance.

DHCD works as a partner with loan and grant recipients in all phases of projects to monitor and react to changing economic and business conditions on a timely and effective basis through flexible, patient, yet persistent loss mitigation efforts. These partnerships enable DHCD to remain a strong community-oriented resource for Maryland residents and communities with very little demand on State general funds.

Program Performance Summary

From FY 1996 to FY 2002, State funding of the NBW Revolving Loan Fund totaled $43.5 million. **Since 2002, program activities have been funded solely by special fund principal and interest repayments.** Principal and interest repayments from NBW loans total $51 million over the FY 1996 to FY 2010 period, a 117% return on the State's initial $43.5 million investment.

This has made possible over $81 million in revitalizing neighborhood investment; $59 million in loans to 245 small businesses and $22 million in grants to 245 nonprofits, as well as $0.6 million of funding for the Capital Access Program and support of DHCD's administrative expenses. NBW loans such as Café Hon in Hampden and Franklin's Restaurant in Hyattsville have been credited as being major economic catalysts for subsequent revitalization initiatives – but for the NBW investment, further investment was unlikely to have occurred in these areas.

Over the past 5 years, $13 million of NR special fund loans and grants have leveraged almost $90 million in other public and private project investments in neighborhood revitalization, all without requiring any general fund investment by the State. NBW gap financing stimulates additional revitalization investment by private lenders including M&T, BB&T, SunTrust, PNC, Chevy Chase (now Capital One Bank), Harvest Bank, Eagle Bank, Harbor Bank, Howard Bank and Revere Bank, to name a few. Since NBW can invest no more than 50% of a project's costs, NBW funds are only invested in projects in which other investors have found significant value.

NBW projects continue to generate significant economic impact to the local community and the State, which is why these funds play an important role in community revitalization. In FY 2010, consistent with prior periods, each $1 of NBW special funds invested back into the program produced $12 of economic impact, through additional jobs and increased State and local tax revenues.

Over the life of the program, NBW investments have assisted in creating over 3,300 jobs. Small businesses remain a key generator of jobs, providing income for family business owners, and increases to the public tax base. Small businesses in Maryland account for over 50% of the State's employment base.

Loan Portfolio Summary

Of the 152 loans for $37.4 million active during the FY 2006 to FY 2010 period:

- $20.7 million of principal has been repaid
  - 54 loans for $11.7 million were paid in full - 17 of the 54 after workout by DHCD's loss mitigation team
  - 89 loans have made payments reducing their principal loan balance by $9 million
- 88 loans were active as of 6/30/10 with an outstanding balance of $14.9 million
- 52% of the loans were never late on a payment during this time period, despite the historic economic downturn

Additional details are provided in the Active Loans FY 2006 – FY 2010 table on page 13.

Peer Comparison

Programs operated by other states and the federal government that are similar to NBW include:

- The Economic Development Fund (EDLF) operated by the Virginia Small Business Financing Authority; like NBW, this program fills the financing gap between private debt financing and private equity. Funds are available to create new jobs or save "at risk" jobs in qualified underserved and distressed areas of Virginia. The EDLF program was initially seeded with $17 million in 1977 and operates as a revolving loan fund, with approximately $11 million in notes receivable. The default rate for the lifetime of the program is around 5%.

- The State of New York has 6 business loan programs, 5 in existence since 1994, 1 created in the past year. New York's focus is on creating economic activity by providing greater access to capital for main street everyday businesses. The Empire State Development department utilizes the programs that fit the project depending on whether it's real estate, working capital/business assets or development. The programs engage participating lenders and all underwriting, asset management and servicing is delegated to these lenders. The concept is simple – if the lender gets repaid, then the State gets repaid with any accrued interest. That State bears the burden of any loss; program default rates are reported to be in the teens.

- The U.S. Small Business Administration (SBA) was created in 1953 as an independent agency of the federal government to aid, counsel, assist and protect the interests of small business concerns, to preserve free competitive enterprise and to maintain and strengthen the overall economy of our nation. The SBA recognizes that small business success is critical to economic recovery and the nation's financial strength. The SBA default rate has recently been estimated to be over 12%, up from its historic average of 6%.

The preceding data demonstrates that the NBW program has performed as well as or better than its state and federal peers, with a lifetime default rate of 6.7% that is in the lower range of industry standards for state and federal small business revolving loan funds.

UNDERWRITING PRACTICES & PROCEDURES

Eligibility

The NBW program is managed by NBW program staff within DHCD's Division of Neighborhood Revitalization (NR). Prior to underwriting a loan, the NBW staff determines whether a Borrower's business is eligible for program consideration. Eligibility threshold determinants include:

- *The business must be located in a State designated revitalization area*. Formerly known as "Designated Neighborhoods," with the passage of the Sustainable Communities Act of 2010, the Designated Neighborhood and Community Legacy Area designations were combined into one new designation – "Sustainable Community".
- *The business must be a small business* as defined by the "Small Business Size Regulations" of the SBA.
- *Applicants must provide a minimum 5% minimum capital contribution* as equity in the project.
- *The requested loan amount may not be more than 50% of the total project cost*, a figure that is computed to include any other State program investment in the project.

NBW Underwriting Guidelines

The NBW Program has sound and responsible loan underwriting and loan review procedures. Through the loan application and review process, the NBW Staff and Loan Review Committee assess each application individually based on the following key issues:

- **Character**: Determination is made through review of an applicant's history, including prior responsible employment and business management, references, responsiveness in meeting the loan application requirements and other research.
- **Credit**: Determination of a responsible credit history is made through review of personal and business credit reports.
- **Capacity/Business Experience**: Applicants must demonstrate strong knowledge and competency within the area of their proposed business and that key staff hired to operate the business also have relevant experience.
- **Collateral**: Assets must be available to pledge for repayment of debt obligations in the case of loan default. Staff verifies value of pledged assets.
- **Cashflow**: The applicant's financials must realistically project revenue and expenses with sufficient ongoing cashflow to service all debt obligations.

In addition, program staff mitigate risk by considering the following:

- **Capital**: participating investment from personal and private sources that illustrate commitment to the initiative and reduces risk of losses.
- **Context**: existing economic environment, including competitive environment for the applicant business and concentration of the type of business in NBW's portfolio.

Skilled Staff & Loan Review Committee

NBW has two experienced underwriters that review these issues with an eye on recovering the loan principal and generating program income for the NBW revolving fund while achieving positive community impact and revitalization by creating or expanding largely retail businesses that result in jobs and new services for their surrounding communities. The importance that DHCD places on the ability of staff is illustrated by the fact that the Director's job classification was upgraded in 2007, in order to ensure that a professional of substantial experience could be hired and retained to lead the NBW program. DHCD is committed to maintaining staff for the NBW program that have exceptional skills in commercial underwriting, loan compliance and risk management

The NBW team responds to inquiries for the program and assists interested applicants in assessing whether they meet basic threshold requirements per statute and regulation. Loans that fully meet all loan underwriting requirements and statutory and regulatory eligibility are documented in a comprehensive underwriting memo for presentation to the NBW Loan Review Committee or Assistant Secretary for Neighborhood Revitalization (Assistant Secretary). The NBW Loan Review Committee consists of 7 members with banking, loan underwriting and community/economic development expertise. The Loan Review Committee is empowered to review and approve funding for NBW loans of $250,000 or more. The Assistant Secretary has authority to approve loans in an amount up to $250,000.

ASSET MANAGEMENT AND LOSS MITIGATION PRACTICES & PROCEDURES

Overview

Once a loan has been closed, i.e., legal loan documents have been executed, primary responsibility for monitoring the performance of the loan is transferred to DHCD's Division of Credit Assurance (DCA). Authority to monitor and asset manage NR loans was given to DCA through a Secretary's Determination and Delegation dated October 22, 1997.

The day-to-day responsibility for the administration of the NR loan portfolio is assigned to DCA's Business Loan Manager who is responsible for taking the steps necessary to assure that risk in the portfolio is minimized, including loan servicer monitoring; insurance monitoring (hazard, liability, flood, key man life, etc); letter of credit monitoring; risk rating monitoring; collateral value oversight and reconciliation; and day-to-day dealings with the Borrower and/or guarantors. The Business Loan Manager also performs the initial analysis and recommendation of loan workouts, modifications, forbearances, bankruptcy, or foreclosure for troubled loans.

DHCD's loss mitigation philosophy is to actively work with all business owners to try to keep the business in operation. As in all small business lending, loan modifications are a necessary and important feature of the program in order to stabilize businesses that experience economic/ business challenges and to improve the likelihood of recovery of principal and interest. DHCD also considers the importance of the business to the community as a factor given the revitalization public purpose of the NBDP/NBW program.

According to the NBDP statute: DHCD "may modify the interest rate, the time or amount of payment, or any other term of the grant or loan to facilitate the successful completion or operation of a project." Modifications are recommended by DCA and approved by the Assistant Secretary and the Director of DCA.

In 2007, an Advisory Loan Committee (Advisory Committee) was instituted as part of the asset management and loss mitigation process. The Advisory Committee is comprised of senior staff members from NR, DCA, DHCD's Division of Finance and Administration (DFA), and the Office of Attorney General (OAG). The Advisory Committee meets at least once a month to discuss the status of the NBW loan portfolio and review issues and recommendations related to problem loans.

Advisory Committee meetings allow DCA to take advantage of NBW staff's existing relationships with Borrowers to facilitate loss mitigation efforts. They also provide important feedback to NBW underwriting through a better understanding of how problem loans develop.

Risk Identification

At a minimum, risk rating evaluations are conducted annually for each loan in the NBW portfolio, but risk ratings are also reassessed when significant new information is received. Risk ratings allow the prompt detection of changes in portfolio quality, enabling DCA to intensify the supervision of weaker loans in a timely manner.

DCA utilizes 4 risk rating categories:

- A Project performing as agreed;
- B Project beginning to experience warning signs;
- C Problem loan (workout) potential loss of principal and/or interest;
- D Probable loss of principal and/or interest.

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Early Warning Signs

DCA is proactive in its collection efforts in order to minimize serious loan delinquencies. Troubled loans need to be addressed before they become delinquent or reach a point of default. The Business Loan Manager reviews the portfolio continually for early warning signs of a possible default by:

- Performing physical property inspections.
- Reviewing requested property operating statements.
- Reviewing property insurance coverage.
- Monitoring the timeliness of debt service payments.

Collection of Delinquent Loans

Collection actions are defined as addressing Routine Delinquency or Serious Delinquency:

- Routine Delinquency - DHCD's contracted loan servicer, Bogman, Inc. (Bogman) is responsible for receiving and applying loan payments and monitoring NBW loans to determine when a loan becomes delinquent. A 30 day "Late Notice" will be sent by Bogman to any borrower that is delinquent in its current loan payment. If the loan continues to be delinquent for 60 days, a "Two Month Default Letter" is sent. After the loan is 90 days past due, an "Acceleration Letter", is sent advising the borrower that foreclosure is imminent, giving instructions as to how to cure the default.

- Serious Delinquency - If collection problems persist, credit weaknesses become more pronounced, risk ratings deteriorate or the loan becomes 90 days or more delinquent, DCA takes over loss mitigation and collection actions from Bogman. The Borrower may be contacted by letter, phone or in person until a plan has been established between the Borrower and DCA to return the account to current status. Upon making the determination that the Borrower is seriously delinquent and has the potential for default or is unwilling or unable to maintain the terms or the loan, DCA reviews the account to determine the appropriate course of action to protect the asset.

Determining the Source(s) of Problems

Once the Business Loan Manager has identified a potential problem, it is important to determine not only the magnitude but the underlying cause of the problem. Effective communication between the Borrower and BLM are extremely important at this point. All problems need to be addressed aggressively and honestly to determine if the problem is with the Borrower, the property, the market or a combination of all three. Based on this review, the Business Loan Manager will consider the feasibility of a workout and/or a restructuring of the debt.

When analyzing the Borrower's capabilities, consideration must be given to the Borrower's perception of the problem and whether the Borrower is being realistic in his evaluation of the situation. What is the Borrower's current role in the property? Does the Borrower manage, lease and/or market the property, and if so does the Borrower possess the necessary skills? Mismanagement and/or absentee ownership are often the root cause of a problem loan. Market/competitive issues are also important factors to consider when determining the options available to address a problem loan.

Upon determining the underlying problem, the Business Loan Manager evaluates whether workout, forbearance, or foreclosure is the best economic option. DCA must consider the cost of foreclosing and selling the underlying property compared to the cost of restructuring and carrying the loan. DHCD will renegotiate loans with Borrowers, as long as there is reasonable confidence that the restructuring plan will work and the revised terms can be met. The Advisory Committee considers these factors, as well as the public purpose of the project.

If the Borrower is non-responsive to DHCD’s outreach, the location and condition of any tangible collateral is ascertained. Guarantors are notified of the status of the loan, as they can be helpful in gaining the cooperation of the Borrower. If this is not successful, legal action may be taken including:

- Filing a Notice of Default against collateral (foreclosure).
- Filing a lawsuit to recover a loan balance.
- Ordering the sale of foreclosed collateral.
- Filing a lawsuit to recover a deficiency balance.
- Any other legal action to protect the underlying collateral.

Loan Restructuring / Workouts

Managing problem loans requires persistence and special knowledge. Loan workouts can take many forms, including a renewal or extension of loan terms, extension of additional credit, or a restructuring with or without concessions. A renewal or restructuring should improve DHCD’s prospects for repayment of principal and interest, and be consistent with sound lending, supervisory, and accounting practices.

DCA considers loan workouts after analyzing a Borrower's repayment capacity, evaluating the support provided by guarantors, and assessing the value of the collateral pledged on the debt. Loan workout arrangements are designed to help ensure that DHCD maximizes its recovery potential. Renewed or restructured loans to Borrowers who have the ability to repay their debts under reasonable modified terms are not subject to adverse classification solely because the value of the underlying collateral has declined to an amount that is less than the loan balance.

There is no "one size fits all" approach to restructuring a loan; each is unique. The complex nature of commercial business loans requires a creative and tailored approach for each project. The key elements of a workout plan may include:

- Updated and comprehensive financial information on the Borrower(s) business project, and any guarantor;
- Current valuations of the collateral supporting the loan and the workout plan;
- Analysis and determination of appropriate loan structure (e.g., term and amortization schedule), curtailment, covenants, or re-margining requirements;
- Appropriate legal documentation for any changes to loan terms;
- An analysis of the Borrower's global debt service that reflects a realistic projection of the Borrower and Guarantor expenses;
- The ability to monitor the ongoing performance of the Borrower and Guarantor under the terms of the workout;
- An internal loan risk rating system that accurately and consistently reflects the risk in the workout arrangement;
- Change in ownership evaluation.

The main advantage of restructuring a loan is to return the loan as quickly as possible to a performing status, keeping the Borrower in place as owner of the business and using his or her management and/or marketing expertise to bring the business plan back on track. The restructure should effectively deal with changes in the initial business model; create incentives for the Borrower to complete the restructuring as planned, and to help avoid possible bankruptcy filings, which may prove especially costly to DHCD.

<u>Alternative Approaches to Loan Workout</u>

A loan workout may include a combination of the following approaches:

- <u>Interest Only</u> – If the property's cash flow cannot substantiate the monthly principal and interest payment, an interest-only payment may be allowed for a period of time.

- <u>Payment Moratorium</u> - Under this scenario, a Borrower discontinues making monthly debt service payments for a stated period of time.

- Additional Collateral - Additional collateral may be obtained in the form of guarantees or other real property, to enhance the collateral position

- Collateral Restructuring – the Borrower may be allowed to refinance the first lien loan in order to reduce debt, enhance financial performance of the business, or facilitate a more sustainable payment option.

- Reduced Interest Rate - The interest rate may be reduced to enable the Borrower to make monthly debt service payments. As cash flow of the property improves, this interest rate may be stepped up and eventually exceed the initial coupon rate. The intent of this type of restructure is that over the period of the loan the average interest received will equate to the original loan interest.

- Reduced Payment Amount - If the property is considered good security and is experiencing a temporary interruption of cash flow, a reduction in the amount of the payment may be considered for a period of time with the balance of the unpaid interest to be deferred and capitalized, then either amortized over the remaining term of the loan after the restructure period or paid as a balloon payment.

- Balloon Payment - Occasionally it may be necessary to postpone the collection of any deferred principal and interest payments until the end of a payment moratorium or interest only period or until some future date, up to loan maturity.

- Term Extension – the term of the loan may be extended to allow for a more sustainable payment option.

- Reduction in Loan Amount/Forgiveness - In extreme cases, the amount of the loan or interest due may be reduced or the debt may be subordinated to another lender or converted to an equity position in the business.

After workout, DCA continues to scrutinize the restructured loan closely, through actions such as monitoring activities that are required under the restructuring plan, obtaining monthly operating statements and performing periodic inspections so as to ensure that the terms of the modification are being followed and to determine the appropriate next steps if not.

Foreclosure / Bankruptcy

If the Borrower and DCA cannot resolve a non-payment issue, DCA may consider the sale of the loan collateral as a last resort, since this action negatively impacts the revitalization purpose of the project. Furthermore, since NBW provides gap financing of no more than 50% of the total project costs, DHCD is usually in a subordinate collateral position. If the NBW loan is in default, it is likely that the senior lien holder's loan(s) are also in default. In some cases the actions of other lien holders are monitored in order to protect NBW's interests, as foreclosure by a senior lien holder may extinguish the existence of DHCD's collateral position and therefore eliminate any financial recovery by DHCD.

If there is still a loan balance remaining after all collateral has been sold and the proceeds of the sale(s) have been applied to the NBW loan, the Borrower is notified of this deficiency balance by certified mail, requiring payment of the balance due by a specific date. If the balance has not been paid by the date specified, DCA and the Advisory Committee will determine the appropriate course of action on a case-by-case basis.

State of Maryland Central Collection Unit

DHCD submits a list of Borrowers whose foreclosed loans have deficiencies, whose loans are delinquent and unsecured and/or whose loans are delinquent and secured, but for whom foreclosure is not an option, to the State of Maryland Central Collection Unit (CCU). CCU takes the necessary steps to collect any outstanding debts owed by the Borrowers.

Neighborhood Business Development Program (operating as Neighborhood BusinessWorks)
Active Loans FY 2006 - FY 2010

Loan #	Note Date	Fiscal Year	Note Amount including Modifications	Paid in Full 6/30/10	Partial Payments 6/30/10	Written Off / Forgiven / In Collection 6/30/10	Balance Due Active Loans 6/30/10	Modified / Serious Deliquency / Default	Loan Status 6/30/10	FY 2006 to FY 2010 # Payments Due	FY 2006 to FY 2010 # Payments Late
10300040	11/7/95	96	239,177		145,899		93,278	Yes	Current	60	4
11600030	2/26/96	96	250,000	250,000			-		Paid In Full	42	-
10500060	3/27/96	96	295,000		162,568		132,432		Current	60	-
10300330	7/2/96	97	75,000	75,000			-		Paid In Full	43	-
10100270	7/3/96	97	100,000	100,000			-		Paid In Full	22	13
11700410	7/5/96	97	7,500	7,500			-		Paid In Full	47	-
10400520	8/7/96	97	175,000		62,472		112,528		Current	60	-
11700460	8/16/96	97	100,000	100,000			-		Paid In Full	13	8
11100510	9/9/96	97	25,000	25,000			-		Paid In Full	14	-
12300070	9/17/96	97	350,000		200,361		149,639		Current	60	-
11100010	10/22/96	97	500,000		287,830		212,170		Current	60	-
10300620	11/4/96	97	347,613		181,061		166,551		Current	60	4
10300670	11/12/96	97	70,000	70,000			-		Paid In Full	19	19
10300470	11/27/96	97	250,000	250,000			-		Paid In Full	54	1
11100560	11/27/96	97	148,475	148,475			-		Paid In Full	18	11
11100580	1/24/97	97	368,000	368,000			-		Paid In Full	26	23
10500700	2/26/97	97	100,000		57,774		42,226	Yes	Current	60	46
10100800	5/23/97	97	420,000		340,973		79,027		Current	60	-
10300780	5/29/97	97	500,000	500,000			-		Paid In Full	14	14
10800140	6/11/97	97	300,000		162,325		137,675		Current	60	-
11300750	6/11/97	97	360,000	360,000			-		Paid In Full	24	-
10600940	7/9/97	98	325,000		276,880		48,120		Current	60	-
10300930	7/31/97	98	250,000		150,771		99,229		Current	60	-
10400920	8/22/97	98	380,000	380,000			-		Paid In Full	33	-
10300910	8/26/97	98	340,000	340,000			-		Paid In Full	22	-
11600870	8/26/97	98	200,000	200,000			-		Paid In Full	24	1
10500950	9/11/97	98	106,000		16,074		89,926	Yes	Current	60	16
10601060	11/7/97	98	250,000		202,921		47,079		30 days late	60	1
10101130	11/18/97	98	121,000		51,491		69,509		Current	60	-
10801140	12/15/97	98	130,000	130,000			-		Paid In Full	13	-
12201080	12/24/97	98	350,000	350,000			-		Paid In Full	26	-
10300760	2/12/98	98	250,000		129,623		120,377		Current	60	-
10301090	3/13/98	98	593,500		403,614		189,886		Current	60	-
11501070	4/30/98	98	262,500		18,266		244,234		Current	27	2
10401280	7/15/98	99	173,400		134,272		39,128		Current	60	-
10301210	8/18/98	99	330,000	330,000			-		Paid In Full	35	-
12301120	8/18/98	99	57,000	57,000			-		Paid In Full	25	2
10301300	8/20/98	99	80,000	80,000			-		Paid In Full	15	-
12601270	8/20/98	99	250,000		183,729		66,271		Current	60	-
10301310	9/29/98	99	80,800	80,800			-		Paid In Full	13	13

Neighborhood Business Development Program (operating as Neighborhood BusinessWorks)
Active Loans FY 2006 - FY 2010

										FY 2006 to FY 2010	
Loan #	**Note Date**	**Fiscal Year**	**Note Amount including Modifications**	**Paid in Full 6/30/10**	**Partial Payments 6/30/10**	**Written Off / Forgiven / In Collection 6/30/10**	**Balance Due Active Loans 6/30/10**	**Modified / Serious Deliquency / Default**	**Loan Status 6/30/10**	**# Payments Due**	**# Payments Late**
10601290	10/21/98	99	212,000		136,429		75,572		Current	60	-
10301320	11/6/98	99	254,167		238,142		16,026	Yes	Current	56	10
11001330	12/29/98	99	500,000	500,000			-		Paid In Full	44	1
10201260	12/30/98	99	200,000		88,267		111,733		Current	60	-
10301400	2/24/99	99	43,100	43,100			-		Paid In Full	43	-
12201430	4/22/99	99	185,000	185,000			-		Paid In Full	15	15
10401480	5/28/99	99	169,000	169,000			-		Paid In Full	17	-
11701490	6/24/99	99	500,000	500,000			-		Paid In Full	49	1
10301500	6/29/99	99	553,700		67,769	485,931	-	Yes	In Collection	54	54
10501510	7/15/99	00	135,550	135,550			-		Paid In Full	39	-
12101520	8/4/99	00	290,000	290,000			-		Paid In Full	51	22
10301570	10/20/99	00	500,000	500,000			-		Paid In Full	47	1
10901580	11/29/99	00	328,000		272,847		55,153		Current	60	-
10301530	12/10/99	00	491,000	491,000			-		Paid In Full	15	1
10901620	2/22/00	00	31,750	31,750			-		Paid In Full	54	-
10301650	3/23/00	00	250,000		8,058		241,942		Current	60	-
10304350	6/21/00	00	250,000		231,772		18,228		Current	60	-
10301540	6/29/00	00	305,800		162,218		143,582	Yes	Current	54	-
10704560	8/25/00	01	100,000	100,000			-		Paid In Full	35	-
10204450	10/14/00	01	168,426		98,061		70,364		Current	60	-
10704640	11/8/00	01	414,000		224,217		189,783		Current	60	-
10704650	12/20/00	01	200,000	200,000			-		Paid In Full	41	-
10304950	1/9/01	01	156,578		70,156		86,422	Yes	Current	60	37
10304680	3/1/01	01	370,000	370,000			-		Paid In Full	20	1
11304990	3/21/01	01	225,000		205,498		19,502	Yes	60 days late	60	23
10404970	6/7/01	01	135,000	135,000			-		Paid In Full	18	-
10505230	8/31/01	02	198,000	198,000			-		Paid In Full	19	2
11701340	9/13/01	02	500,000		252,490		247,510		Current	60	-
10305290	9/17/01	02	210,000		102,750		107,250		Current	60	-
10105250	9/28/01	02	120,000		101,481		18,519		Current	60	-
10504000	11/8/01	02	83,000		65,852		17,148		Current	60	-
11705310	11/27/01	02	65,500		53,011		12,489		Current	60	-
10705270	12/31/01	02	95,000		77,264		17,736		Current	60	8
11605660	4/22/02	02	110,000		86,133		23,867		Current	60	-
10305190	4/25/02	02	215,000	215,000			-		Paid In Full	43	1
10305620	4/29/02	02	250,000		87,671	162,329	-	Yes	In Collection	18	14
10305560	5/2/02	02	143,000	143,000			-		Paid In Full	44	-
10305640	6/26/02	02	50,000	50,000			-		Paid In Full	47	10
10305050	7/24/02	03	20,000	20,000			-		Paid In Full	25	19
12405590	7/24/02	03	126,160		116,444		9,716		Current	60	-

Neighborhood Business Development Program (operating as Neighborhood BusinessWorks)
Active Loans FY 2006 - FY 2010

Loan #	Note Date	Fiscal Year	Note Amount including Modifications	Paid in Full 6/30/10	Partial Payments 6/30/10	Written Off / Forgiven / In Collection 6/30/10	Balance Due Active Loans 6/30/10	Modified / Serious Deliquency / Default	Loan Status 6/30/10	FY 2006 to FY 2010 # Payments Due	FY 2006 to FY 2010 # Payments Late
10305700	8/15/02	03	500,000	500,000			-		Paid In Full	35	-
11505830	9/5/02	03	150,000		65,679		84,321		Current	60	-
10305730	9/11/02	03	48,000		44,447		3,554		Current	60	-
12105850	11/7/02	03	199,000		84,983		114,017		Current	60	-
11006160	1/31/03	03	135,000		56,765		78,235		Current	60	-
10104960	2/12/03	03	234,453		49,460	184,992	-	Yes	In Collection	60	48
11305950	2/13/03	03	250,000	250,000			-		Paid In Full	52	-
10205920	4/4/03	03	515,385		233,300		282,085		Current	60	10
10305040	5/28/03	03	385,180		58,323		326,857	Yes	Current	60	17
10405670	9/16/03	04	250,000		157,428		92,572		Current	60	-
10304890	10/31/03	04	500,000		58,426		441,574		Current	51	1
10035300	12/19/03	04	500,000		38,313		461,687	Yes	Current	40	24
11106280	5/7/04	04	200,000	200,000			-		Paid In Full	34	-
10306260	6/11/04	04	250,000	250,000			-		Paid In Full	17	-
10306330	6/22/04	04	185,000	185,000			-		Paid In Full	19	11
10306340	7/27/04	05	143,700		74,435		69,265		30 days late	60	6
10306410	8/24/04	05	55,000		44,233		10,767		Current	60	-
10016390	9/28/04	05	65,000	65,000			-		Paid In Full	57	4
10036370	10/13/04	05	115,000		12,803	102,197	-	Yes	Written Off	18	15
10036430	12/3/04	05	170,000		71,414	98,586	-	Yes	In Collection	60	17
10166380	2/4/05	05	500,000		113,147		386,853	Yes	180 days late	60	52
10036540	2/15/05	05	500,000	500,000			-		Paid In Full	55	-
10166300	3/3/05	05	200,000		71,868		128,132		Current	60	-
10026570	4/12/05	05	110,500	110,500			-		Paid In Full	27	16
10046730	5/18/05	05	160,000		58,828	101,172	-	Yes	In Collection	33	21
10176710	5/26/05	05	120,000		46,164		73,836		Current	56	-
10096170	6/6/05	05	225,000		152,267		72,733		Current	56	-
10305630	7/1/05	06	500,000		66,835		433,165		Current	28	3
10216750	8/8/05	06	250,000		8,425		241,575		Current	53	-
10036760	8/15/05	06	500,000		66,754		433,246		Current	53	1
10166670	9/20/05	06	105,000		79,992		25,008	Yes	Current	53	28
10036700	9/21/05	06	250,000		188,223		61,777	Yes	120 days late	53	12
10036990	9/29/05	06	80,000	80,000			-		Paid In Full	7	1
10046680	10/7/05	06	261,701		168,394		93,308	Yes	Current	48	25
10037040	11/21/05	06	250,000	250,000			-		Paid In Full	7	4
10036740	12/6/05	06	475,000		72,128		402,872		Current	50	2
10217080	1/20/06	06	546,769		299,327		247,442	Yes	Current	43	3
10037110	4/26/06	06	158,801			158,801	-	Yes	In Collection	41	39
10227070	6/29/06	06	90,000		25,057		64,943		60 days late	42	20
10037060	6/30/06	06	500,000	500,000			-		Paid In Full	19	15

Neighborhood Business Development Program (operating as Neighborhood BusinessWorks)
Active Loans FY 2006 - FY 2010

Loan #	Note Date	Fiscal Year	Note Amount including Modifications	Paid in Full 6/30/10	Partial Payments 6/30/10	Written Off / Forgiven / In Collection 6/30/10	Balance Due Active Loans 6/30/10	Modified / Serious Deliquency / Default	Loan Status 6/30/10	FY 2006 to FY 2010 # Payments Due	FY 2006 to FY 2010 # Payments Late
10197140	9/29/06	07	150,898	150,898			-		Paid In Full	9	-
10037170	10/17/06	07	72,986	72,986			-		Paid In Full	19	-
10173300	11/20/06	07	130,000	117,000		13,000	-		Paid/Forgiven*	1	-
13993920	11/3/06	07	202,128			202,128	-	Yes	In Collection	29	29
10067200	1/11/07	07	213,975		16,748		197,228		Current	41	-
10217750	2/7/07	07	100,000		7,275	92,725	-	Yes	In Collection	39	18
10037800	5/4/07	07	372,652		30,043		342,609	Yes	Current	33	13
10227830	7/27/07	08	558,000		1,893		556,107	Yes	150 days late	24	9
10038040	9/28/07	08	85,000		8,096		76,904		Current	32	-
10038030	10/26/07	08	300,000			300,000	-	Yes	In Collection	31	21
10038000	11/13/07	08	235,000		13,162		221,838		Current	26	-
10168070	1/18/08	08	176,838		4,811		172,027	Yes	60 days late	24	6
10038050	1/30/08	08	250,000		4,613		245,387		Current	26	3
10018110	3/3/08	08	500,000		115,396		384,604		Current	26	-
10078120	4/7/08	08	32,500		10,156		22,344		Current	16	-
10036440	6/23/08	08	100,000		42,949		57,051		Current	60	-
10048210	7/30/08	09	56,646		3,123		53,523	Yes	30 days late	22	13
10038230	9/5/08	09	475,300		69,321		405,979		Current	19	-
10038220	10/3/08	09	700,000				700,000		Current	19	-
10038270	10/3/08	09	472,000		18,483		453,517		Current	19	-
10108240	12/4/08	09	167,000		2,888		164,112	Yes	420 days late	18	13
10178190	1/5/09	09	150,000		12,653		137,347		Current	17	-
10038060	2/10/09	09	190,000		7,638		182,362	Yes	60 days late	16	11
10168280	2/19/09	09	500,000		205,234		294,767		Current	16	1
10148420	5/8/09	09	15,000		1,315		13,685		Current	14	-
10038330	7/23/09	10	500,000				500,000		Current	6	-
10088300	7/27/09	10	278,438				278,438		Current	6	1
10168390	9/8/09	10	141,300		1,011		140,289		Current	8	3
10168410	11/6/09	10	250,000				250,000		Current	5	1
10038320	11/19/09	10	400,000				400,000		Current	6	-
10178440	11/23/09	10	300,000				300,000		Current	6	-
10038470	12/29/09	10	52,762		745		52,018		30 days late	6	1
Total Amount			**$ 37,425,608**	**$ 11,709,559**	**$ 8,960,402**	**$ 1,901,861**	**$ 14,853,786**				
% of Total Amount				**31%**	**24%**	**5%**	**40%**			**% Loans Never Late**	**52%**
# Loans			**152**	**54**	**89**	**11**	**88**			**Average % Late Payments**	**16%**
Average Loan Amount			**$ 246,221**								

* 10% or $13,000 of this loan was forgivable per the terms of the loan note

REVIEW of LOANS with MODIFICATIONS, DELINQUENCIES, and/or DEFAULTS

As shown in the Active Loans FY 2006 – FY 2010 table of the 152 loans for $37.4 million active during the FY 2006 to FY 2010 period:

- $20.7 million of principal has been repaid
  - 54 loans for $11.7 million were paid in full - 17 of the 54 after workout by DHCD's loss mitigation team
  - 89 loans have made payments reducing their principal loan balance by $9 million
- 88 loans were active as of 6/30/10 with an outstanding balance of $14.9 million

DHCD's loss mitigation philosophy is to actively work with all business owners to try to keep the business in operation. As in all small business lending, loan modifications are a necessary and important feature of the program in order to stabilize businesses that experience economic/ business challenges and to improve the likelihood of recovery of principal and interest. DHCD also considers the importance of the business to the community as a factor given the revitalization public purpose of the NBDP/NBW program. According to the NBDP statute: DHCD "may modify the interest rate, the time or amount of payment, or any other term of the grant or loan to facilitate the successful completion or operation of a project."

The following section of the report details 30 loans with loan modifications and other actions taken by DHCD to collect payment or restructure loans, including seriously delinquent and defaulted loans, during the FY 2006 to FY 2010 period. Of these, 12 loans were current as of 6/30/10, while an additional 4 loans were routinely delinquent (less than 90 days). The remaining 14 loans were seriously delinquent or in collection as of 6/30/10; 1 of these has since been paid in full.

<u>Loan 10300040 – 11/7/95</u>

Project Summary: This early NBW project entailed the expansion of this restaurant into what was a vacant retail store. The success of the restaurant is credited as an important catalyst for the subsequent revitalization of the historic Hampden Main Street, also known as "The Avenue." An NBW loan of $146,000 was made on 11/7/95 as part of a total project cost of $321,600.

Asset Management History: During the initial term of the loan, the Borrower was able to make timely payments. Three minor loan modifications were approved initially that addressed clarifications to the loan documents. In 2002, the Borrower requested that the loan amount be increased by $60,000 to $206,600 to pay for renovations and expansion of the business premises, which was approved on 4/17/02. Between 1995 and 2008, the Borrower was late in its payments on only a few occasions.

On 9/12/08, the Borrower requested payment relief, as well as additional funds as the project experienced its first ever year-to-year decline in sales due to the implementation of a smoking ban. In addition a rise in wholesale food prices, vendor fuel surcharges and the Borrower's inability to pass on the increased costs to the customers compounded the restaurant's problems. On 10/17/08, a modification was approved which incorporated all the changes to date from previous modifications and advances.

The loan balance had paid down to $22,150 when on 1/29/09 a modification was approved that re-advanced funds of $92,576 to pay certain accumulated debts, cure past due sales tax and payroll taxes, and pay off a line of credit.

Current Status: The loan remains current**.**

Loan 10500700 - 2/26/97

Project Summary: This project was for new construction of an existing commercial retail business in operation since 1971, on higher ground to eliminate a flooding problem experienced at the previous location in North Beach in Calvert County. The Borrower occupies the major portion of the building, but also leases a retail unit. This new building allowed the business to expand. An NBW loan of $100,000 was closed on 2/26/97 as part of a total project cost of $265,000.

Asset Management History: Due to changes in the demographics of the area, the Borrower's business has seen a steep decline. The Borrower got behind in his payments during the summer of 2006 and became seriously delinquent later that year. The loan was defaulted on 06/22/07 as the arrearages became excessive. The Borrower was put on a payment plan until the loan was brought current. The loan continues to be sporadically delinquent but then catches up on payments.

Current Status: The loan is current as of 6/30/10.

Loan 10500950 - 9/11/97

Project Summary: This retail business had been in operation since 1986, and was purchased and renamed by the Borrower in May 1995. The shop sells flowers and other gift items including pottery and vases made by 48 local artists from Calvert and St. Mary's Counties, and is the only permanent retail showcase for their work. The project entailed the purchase of a house in the historic downtown area of the North Beach/ Chesapeake Beach communities which allowed for the expansion of the existing business. Two additional jobs were created by the expansion. An NBW loan of $106,000 was made on 9/11/97 as part of a total project cost of $212,000.

Asset Management History: The Borrower operated the business on a modestly successful basis for the first 7 years, after which the business showed a sharp decline in revenues. As a result, accounts payable rose, the line of credit was fully utilized, building repairs were deferred and NBW loan payments were missed starting in October 2007. On 4/4/08, a modification was approved to increase the loan from $28,531 to $122,500, using the proceeds to retire high interest rate debt, bring the loan current and improve the building's condition. The Borrower, decided not to use all of the additional funds, so on 9/29/08, a modification agreement was approved reducing the principal by $20,000, and adjusting principal and interest payments. Payments began to be made late again in March 2009 and the loan was defaulted on 7/20/09. The Borrower paid all arrearages in August 2009 and the loan has remained current**.**

Current Status: The loan remains current as of 6/30/10.

Loan 10301320 – 11/6/98

Project Summary: The project involved the relocation and expansion of a well-established bakery to the South Baltimore neighborhood of Baltimore City in a location that had been vacant for 6 months. NBW funds were used for the purchase of equipment and working capital. An NBW loan of $250,000 was closed on 11/6/98 as part of a total project cost of $610,000.

Asset Management History: This business experiences seasonal cash flow problems. In order to assist the business through a difficult period, DHCD agreed to extend the initial deferred payment period from 6/1/99 through 12/1/99. While no payments were made during the deferment period, interest accrued on the unpaid balance of the loan and was capitalized on 12/01/99. Subsequently, the Borrower suffered an employee theft that was not covered by insurance. As a result, the Borrower requested an additional deferment to help catch up from the inventory loss; on 7/2/02 a second allonge was executed which deferred principal and interest payments from 6/01/02 through 10/01/02. A subordination agreement was executed on 09/07/06, allowing the Borrower to refinance his personal residence; the refinancing resulted in an increase in the equity which was pledged as additional collateral for the NBW loan.

Current Status: The loan is current as of 6/30/10.

Loans 610301500 – 6/29/99 and 613993920 – 11/3/06

Project Summary: This loan was for improvements and stabilization of a Baltimore entertainment landmark on the National Register of Historic Places. The property is considered a community anchor, being located within a traditional business district just south of Northern Parkway with many neighborhood-oriented establishments such as restaurants, book stores and specialty grocers. The property attracts many visitors that also frequent and support nearby establishments. An NBW loan of $385,000 was closed on 6/29/99 as part of a total project cost of $1,170,000.

Asset Management History: The loan was modified on 6/19/00 increasing the principal balance by $10,000 to $395,000, to provide for a feasibility study to explore expanding the business. In 12/18/02, DHCD subordinated to a new first lien loan in the amount of $1,200,000, which paid off a prior lender, and to a second lien from the Guarantor of the first lien loan in the amount of $600,000. On 4/30/06, NBW approved an additional disbursement of funds in the amount of $158,700 to pay specific vendors, increasing the loan amount back to $500,000.

On 11/3/06, NBW approved a forgivable grant/loan in the amount of $219,500 to bring accounts payable current and keep the business going, of which $202,128 was disbursed. The 11/3/06 award was made as a forgivable grant, but converted to a loan when the terms of the grant were not met. The combined outstanding balance of the original loan and the forgivable grant/loan totals $688,059. The first lien lender filed for foreclosure on 1/3/07. The Borrower was able to raise money through donations from the public to bring the first lien loan current and avoid foreclosure.

However, the Borrower had not made a payment to DHCD since April of 2006. DCA staff met with the Borrower on numerous occasions to discuss plans to pull the project out of default, which resulted in broken promises from the Borrower. The NBW loan was defaulted on 7/9/07. The first lien loan was purchased from the first lien lender by the City of Baltimore, who later foreclosed on 7/22/09. This allowed the business to reopen under different management.

Collateral for the loan was comprised of the following: a second lien on the business building; second lien on business equipment; second liens on two residential properties; and personal guarantees. DHCD had determined that foreclosure was not a feasible option as the market value of the business was less than the amount owed to the first lien lender, which was confirmed when the business was foreclosed on by the City, resulting in a sale over $100,000 less than the amount owed. One of the residential properties was foreclosed by the first lien holder resulting in zero proceeds to DHCD. The equipment was sold by DHCD at the appraised value of $6,425.

Current Status: DHCD is continuing to actively pursue all remedies to recover NBW funds.

Loan 10301540 - 6/29/00

Project Summary: This project entailed the expansion of an existing restaurant located in the historic and popular O'Donnell Square which is a focus for neighborhood services in the Canton community. The expansion included the acquisition of an adjoining historic building with 2 rental apartments on the second floor and 1 on the third floor. Including the new 90 seat dining room, the total customer capacity was increased from 77 to 150. An NBW loan of $305,800 was closed on 6/29/00 as part of a total project cost of $620,974.

Asset Management History: From 6/29/00 to the beginning of 2003, the loan paid according to the terms of the documents, with no late payments. In early 2003, the Borrower first started experiencing a decline in business due to very severe weather. The Borrower requested and received a Note allonge on 4/22/03, which allowed for the deferment of principal and interest for 6 months. In 2004, 1 of the 2 partners became unable to participate in the day-to-day operation of the restaurant, which negatively impacted the performance of the restaurant. The Borrower requested a deferment of principal and interest for 6 months from 11/1/08 through 4/1/09, as well as a reduction of the interest rate from 5% to 3%, and the capitalization of all accrued interest. This request was approved on 12/10/08. The Borrower resumed regular payments in April 2009 and has remained current since.

Current Status: The loan is current as of 6/30/10.

Loan 10304950 - 1/9/01

Project Summary: This project entailed the acquisition of a 7,200 square foot 4 -story commercial building on a historic corridor in Baltimore that is in great need of revitalization. The business owners were forced to move from their original successful location by the City of Baltimore, when it began the redevelopment of downtown West Baltimore. The beauty supply business had been operating successfully since 1985. The project sustained 3 jobs and was projected to expand staff in its new location. An NBW loan of $155,000 was closed on 1/9/01 as part of a total project cost of $375,400.

Asset Management History: The owners ran a very successful business while at their previous location but the new location proved to be outside of the range of the previous customer base, with significantly reduced foot traffic. In addition, the principal of the Borrower had an unexpected absence from the business due to health issues. The loan was defaulted on 09/18/06. A Note Allonge was agreed to on 11/21/08, which reduced the interest rate from 4% to 2%, capitalized all accrued interest, and extended the maturity. After periodic struggles, the Borrower has been able to bring the loan current by liquidating a personal asset which was not held as collateral for the loan.

Current Status: The loan is current as of 6/30/10.

<u>Loan 11304990 – 3/21/01</u>

Project Summary: The project entailed the construction of a new building to be used as a dental office within the historic Main Street community of Havre de Grace. The Borrower had operated their prior dental practice for 5 years. An NBW loan of $225,000 was closed on 3/21/01 as part of a total project cost of $595,280.

Asset Management History: Due in part to excessive start up costs, a Note Allonge was approved on 7/7/03, to defer P&I payments from 1/1/03 through 3/1/03, and extend the maturity date to 3/1/11. The outstanding loan balance has been reduced to $19,502 from the original amount of $225,000. The Borrower is regularly late with payments by several months but catches up periodically.

Current Status: As of 6/30/10, the loan was 60 days late, but was brought current in August.

<u>Loan 10305620 - 4/29/02</u>

Project Summary: NBW loan funds assisted in the reopening and renovation of this business, a supermarket in the Cherry Hill section of Baltimore. The former supermarket closed down in 2000 due to financial problems. When the supermarket closed, Cherry Hill residents were then forced to travel well outside of their neighborhood to get groceries. This was especially a problem for the area's many low income residents. NBW funds were used to purchase equipment and inventory, and for leasehold improvements. 30 jobs were created as a result of the reopening of the grocery store. An NBW loan of $250,000 was closed on 4/29/02 as part of a total project cost of $693,625.

Asset Management History: Loan payments were made regularly through 2005, but the family-owned business encountered difficulties when the head of the family died suddenly in early 2006 and left control of the business to inexperienced family members. DHCD and the landlord met with the Borrower on several occasions, bringing in a business consultant to try assist in stabilizing operations. Unable to keep up with the loan payments in a very difficult market environment, the loan was defaulted on 10/31/06 after the landlord terminated its lease.

Current Status: A confessed judgment was obtained and the loan was forwarded to CCU for collection. $29,772 of the defaulted balance of $192,101 has been collected, leaving a balance of $162,329.

Loan 10104960 - 2/12/03

Project Summary: This project entailed the purchase of a vacant 4,000 SF building in the historic downtown of Cumberland (a Maryland Main Street community) for a restaurant expansion and improvements. The expansion created an additional 13 jobs and retained 2. An NBW loan of $215,000 was made on 2/12/03 as part of a total project cost of $646,000.

Asset Management History: In March 2005, the Borrower became seriously delinquent as a result of declining sales. On 3/21/06, the loan was defaulted. In discussions with the Borrower, it became clear that the borrower required professional assistance with accounting records. The Borrower was encouraged to hire a CPA firm to improve their financial systems. At the request of the Borrower, an allonge was approved on 01/10/07, which capitalized accrued interest and late charges, reduced principal and interest payments and extended the maturity date.

As cash flow still did not meet expectations, a subordination agreement was approved on 4/4/07 which allowed the Borrower to refinance their personal residence (collateral for the loan) and sell off a tract of land in order to complete renovations expected to add value to the collateral. Regular payments resumed and continued until August 2008.

The restaurant was listed for sale with a broker in July 2008. In November 2009 the Borrower requested that DHCD allow the refinance of their renovated personal residence, with excess proceeds going to reduce DHCD debt by $75,000. However, the Borrower closed on the refinance and withheld the proceeds in violation of the loan agreement.

Current Status: DHCD is seeking remedy from the Borrower due to their failure to remit funds promised from the refinance of the residence to reduce the debt. A declaratory judgment is being sought prior to foreclosure.

Loan 10305040 - 5/28/03

Project Summary: This project entailed new construction of a 20,000 SF building as a cafe and inn in the historic Fells Point community of Baltimore City, was and is predicted to create 49 new jobs. An NBW loan of $200,000 was made on 5/28/03 as part of a total project cost of $2,685,000.

Asset Management History: From the beginning of construction, the project encountered numerous delays. The Borrower had disagreements with the initial general contractor, who was subsequently fired. The second general contractor also got into a disagreement with the Borrower and then filed suit against the Borrower. A third general contractor was hired only to have the construction halted by changes made in the plans and specifications without the consent and approval of the first lien lender. The Borrower and first lien lender reached a resolution whereby a new commitment was issued that increased the scope of the project, incorporated "green" building approaches and increased the first lien loan from $2 million to $5 million.

The NBW Note called for amortization to begin with cash flow from the project after an initial 5 month deferral period; this was an error, which was corrected on 10/23/03 through a modification adding 13 months to the deferral period. In an effort to resolve the lawsuit with the second contractor, the Borrower requested an increase in the loan amount to $480,000. So as to not jeopardize the project, NBW approved the increase on 4/28/05.

To date, $330,143 of the $480,000 loan amount has been disbursed, with the remaining $149,857 to be disbursed on a prorated basis as the construction progresses. Additional modifications were approved capitalizing interest and fees and deferring principal payments: on 3/29/06 deferring payments until 5/31/06; on 6/2/06, deferring payments until 6/30/06; and on 09/26/07, deferring payments until 12/31/07. Payments started in January 2008 and have been made regularly since that time.

Current Status: The loan remains current as of 6/30/10.

Loan 10035300 - 12/19/03

Project Summary: This project entailed the demolition, rehabilitation and new construction of 3 adjoining buildings located in historic East Baltimore. These long-vacant and derelict historic buildings occupied a strategic location in the City. Project improvements allowed for the active reuse of the building, new employment opportunities for 80 people and increased positive street level activity in what was once an unsafe area. The property, which is listed on the National Register of Historic Places, was restored, and a new 3 story addition was added, creating 15,000 square feet of mixed-use space. The street level housed a food court and the upper two floors were commercial space. A NBW loan of $500,000 was made on 12/19/03 as part of a project with total costs of $2,845,754.

Asset Management History: Because of construction-related delays, a request from the Borrower was approved to defer initial principal and interest payments. On 09/14/05, the Note was modified to allow for the capitalization of all accrued interest and late charges, resulting in an increase of the principal balance to $520,762. The project then experienced severe construction cost overruns; as a result, the loan was again modified on 11/29/06, allowing the Borrower to enter into a partnership with a syndicator to benefit from certain federal Historic Tax Credits and raise the funds necessary to complete construction.

An additional deferral period was provided through 12/31/06 to allow for the finalization of construction; however, between 12/06 and 9/09 the Borrower made only 13 payments. Because the Borrower had funds from another source to bring the loan current, a third modification was executed on 09/29/09 that included the full collection of past due arrearages in the amount of $35,391, as well as an adjustment of the monthly principal and interest payments to a more sustainable level, reducing them from $5,026 to $2,869.

Current Status: The loan remains current. The office space is fully leased, however, the tenant restaurant operator's expectations of customer volume were not reached, and he has vacated the premises. The Borrower is actively seeking a replacement retail tenant.

Loan 10036370 - 10/13/04

Project Summary: This project involved the acquisition and renovation of a vacant storefront location as a restaurant in the Canton neighborhood of Baltimore City. By eliminating a vacant street level property, the project significantly improved the community appearance and further stabilized the neighborhood. Positive street level activity increased and employment opportunities were created for local residents. An NBW loan in the amount of $115,000 was closed on 10/13/04 as part of a total project cost of $625,000.

Asset Management History: The Borrower made principal and interest payments beginning on 5/1/05 through 1/30/06 after project renovations. After the loan became 90 days delinquent in April 2006, Bogman turn the collection process over to DCA. The Borrower ignored repeated attempts by DCA to workout the loan. On 5/10/06, the principal of the Borrower, also the Guarantor, declared bankruptcy by filing for Chapter 13. The loan was declared in default on 6/8/06.

The lenders in first position on the restaurant and the personal residence foreclosed. This left DHCD's loan unsecured because the first lender on the restaurant also had a lien against the Borrower's business equipment. In addition, the principal of the Borrower declared personal bankruptcy, eliminating pursuit of him under his guaranty as an option. The Borrower is no longer in existence as a valid entity in Maryland.

Current Status: The loan balance of $102,196.63 was written off, as all avenues for collection had been exhausted.

Loan 10036430 - 12/3/04

Project Summary: This project entailed the renovation of a vacant historic building in Federal Hill's central business district, a designated Main Street community. An NBW loan in the amount of $170,000 was closed on 12/3/04 as part of a total project cost of $937,000 to create 1,200 square feet of first floor commercial space and convert the second floor into 4 residential apartments. Annual rental income from each residential apartment in the amount of $22,200 was projected in addition to rental income from the first-floor office space.

Asset Management History: An increase in pre-development costs jeopardized the project's timely completion. As a result, a request from the Borrower was approved on 1/4/05 to amend the construction budget. Later, a dispute between the project partners led to another request to release 1 of the 3 general partners for failure to perform in accordance with the Partnership Agreement; which was approved on 1/17/06. Following the completion of construction and re-appraisal at $1,951,000, a re-subordination modification was completed on 04/19/06. The Borrower made regular payments through 10/09. The loan was defaulted by DHCD on 03/17/10, for non payment of debt service, due to the DHCD's determination that legal disputes between the 2 remaining partners would not be resolved in a timely manner.

Current Status: The loan is currently delinquent and DHCD is pursuing collection efforts.

Loan 10166380 - 2/4/05

Project Summary: This project entailed the renovation and reuse of a commercial space in an older commercial district in the Wheaton area of Montgomery County. Due to the success and volume of clientele (almost $1 million of sales in 2002) of the owner's first restaurant which opened in 1996, the owner decided to expand to a second location in Wheaton. On 2/4/05, NBW made an initial loan of $250,000 for the renovation of the second location along with funds for furniture, fixtures and equipment as well as working capital.

Asset Management History: The borrower became delinquent in September 2005 and made sporadic payments through January of 2007. In order to improve its collateral position and the likelihood of the business to be successful on 12/6/07, DHCD approved a modification that:

- Increased the loan amount from $250,000 to $500,000, which was used by the Borrower to retire more expensive outstanding first lien debt and satisfy an IRS tax lien, improving the business cash flow and DHCD's lien position from second to first on all of the Borrower's business assets.
- Provided additional collateral of a Certificate of Deposit in the amount of $130,000 and a second lien position of an Indemnity Deed of Trust on the Borrower's primary residence.

The net effect of these actions improved DHCD's collateral coverage significantly. Unfortunately, the market was weaker than anticipated, and the Borrower again fell behind in monthly payments to NBW, as well as in its rent payments to their landlord.

The loan was defaulted on 06/26/08. Under the Deposit Account Control Agreement that had been agreed to between the parties, the Certificate of Deposit was called on 01/08/09. The proceeds of $132,324 were used in part to bring the loan current with the remainder applied to the reduction of the principal balance of the loan. The Borrower was subsequently evicted by the landlord. The Borrower relocated to a new site in the Wheaton Mall where increased foot traffic was expected to bring in new clients as well as retaining loyal existing customers. Problems with the renovation caused delays in the opening.

Current Status: The loan is delinquent; however, the borrower has made two good faith payments and additional workout strategies are under review. The owner's new business location is open and operating and appears to be attracting a good volume of clientele.

Loan 10046730 - 5/18/05

Project Summary: This project entailed the purchase and resupply of a medium-size (10,000 square foot) grocery store in the heart of the historic Dundalk business district, a designated Maryland Main Street. This neighborhood is deficient in accessible fresh grocery outlets (the closest grocer is 5 miles away). This project also led to the creation of 22 new jobs. An NBW loan of $160,000 was closed on 5/18/05 as part of a total project cost of $320,000.

Asset Management History: While the Borrower was regularly late on his payments, falling behind several months, he would then regularly bring the loan current. The Borrower also failed to pay the landlord on a timely basis; as a result, the landlord evicted the tenant and the store was forced to close permanently. The Department defaulted the loan on 2/25/08.

Current Status: The loan was referred to CCU for collection pursuant to the loan guarantees.

Loan 10166670 - 9/20/05

Project Summary: This project involved the expansion of a successful ice cream company from its original location in Virginia to a second location in the Black Mill Arts District of Silver Spring, an area which has been the focus of major capital investments by both Montgomery County and private residential developers. The arts district was expected to increase in economic activity among patrons from the surrounding apartment buildings. The project was expected to create 25 jobs. An NBW loan of $105,000 was closed on 9/20/05 as part of a total project cost of $226,000.

Asset Management History: Originally the loan was scheduled to close in the spring of 2005, but unforeseen delays forced the closing to 9/20/05. This delay combined with the loss of parking spaces due to the construction of an apartment complex on what had been a public parking lot adjacent to the business resulted in a significant loss of potential income for the business owner. The Borrower remained current in payments but sought relief; therefore on 1/3/07 the Note was modified allowing for the requested relief in the form of interest only payments from 2/1/07 through 3/1/08, which extended the maturity date by fourteen months.

Still unable to make the payments due in part to ongoing construction in the area, the loan was defaulted on 3/1/08. The business owner filed for personal bankruptcy, subsequently losing her personal residence when the first lien lender foreclosed. DHCD received excess proceeds of $85,260 from the sale of the personal residence, which were used to bring the loan current and reduce the principal. The outstanding balance of the loan is $25,992.

Current Status: As of 6/30/2010, the business is open and the loan remains current.

Loan 10036700 - 9/21/05

Project Summary: In 2005, the Borrower relocated to the Empowerment Zone in South Baltimore and renovated a vacant commercial space for their manufacturing enterprise. An NBW loan of $250,000 was closed on 9/21/05 as part of a total project cost of $500,000.

Asset Management History: The Borrower experienced a significant decline in sales revenue over the last two years with gross sales dropping from $20 million to $13 million annually, primarily due to the loss of two major contracts, which impacted their ability to make timely loan payments. As a result, the loan was defaulted by DHCD on 6/25/10.

Current Status: The loan was 120 days late as of 6/30/10, but the Borrower paid the loan in full on 10/6/10 as a result of DCA's collection efforts.

Loan 10046680 - 10/7/05

Project Summary: This project entailed leasehold improvements to create a neighborhood drycleaner, addressing a community need since there was no other dry cleaner within 8 miles of this populous suburban community. The property had been vacant for over a year and the project created 10 jobs. An NBW loan of $258,879 was closed on 10/7/05 as part of a total project cost of $548,879.

Asset Management History: During the building renovation, the Borrower encountered unforeseen difficulty with the first lien lender, which caused a 5-month delay in the project completion. In response the Department approved an allonge, or attachment to a promissory note setting forth additional terms of the note, on 03/23/06, granting a 5 month payment deferral period. DHCD approved a request for the remaining partner of the LLC to assume the loan on 12/12/06. Payments resumed in 2/07.

In October of 2008, the Note was amended to read $101,581, after the Borrower paid $100,000 of the principal balance, with adjustments to the principal and interest payment, as well as the extension of the maturity date. In August of 2009 the Borrower again became delinquent. In order to allow for the buyout of the current partners and the capitalization of all accrued interest and fees, on 05/27/10, the Note was modified bringing the loan current.

Current Status: The loan is current as of 6/30/10.

Loan 10217080 – 1/20/06

Project Summary: The Borrower purchased this property with the objective to restore and preserve what remained of the original home and return it to its prominence in the historic Main Street area of Easton as a bed and breakfast and restaurant. Previously the circa 1874 property had been used as a personal residence, offices and most recently as a 10 unit apartment building. Prior owners had given no consideration to the historic significance of the property, resulting in serious damage to the structure and architectural features. Once renovations were complete, the project offered 5 suites with modern bathrooms and other amenities. The project created 2 jobs. An NBW loan of $250,000 was made on 1/20/06 as part of a total project cost of $1,188,000.

Asset Management History: The Borrower experienced cost overruns in renovating the bed and breakfast project. On 3/7/06, a Note allonge was approved that increased the loan amount from $250,000 to $500,000 in order to provide a bridge loan for a delayed U. S. Small Business Administration (SBA) loan.

Revenues did not meet expectations, and the maturity date for the loan was extended on 1/19/07 to 3/1/07 in order to allow additional time for the property to begin meeting financial expectations. However, due to the difficult economic conditions, the project still was not able to pay its debt service. On 5/1/07 the Note was modified to capitalize accrued interest and fees, reduce the payment and extend the maturity date of the loan.

On 6/14/07, the Borrower paid down the loan principal by $280,000 from proceeds received from a SBA loan. As revenues continued to be insufficient to cover debt obligations, the Borrower requested and was granted an additional Note modification allowing for a reduction of the interest rate from 6.25% to 3% with deferred payments for 6 months until 6/1/09.

Current Status: The Borrower resumed on-time payments and the loan remains current as of 6/30/10. A recent request by the Borrower for additional financing to expand the property was denied by NBW staff.

Loan 10037110 - 4/26/06

Project Summary: This project entailed the renovation of two properties for a mix of residential, retail and commercial uses in the historic Main Street community of Hampden, a neighborhood that has experienced steady revitalization over the last decade. The Hampden business district includes a number of unique retail shops, restaurants and art galleries. The Borrower operated a well known local business which was forced to locate from their original location on “The Avenue” -- Hampden’s Main Street because of proposed rent increases. Hence the owners sought and found a new location just off The Avenue. The plan for the business relocation and expansion included eat-in opportunities with an expanded menu and improved parking. The business planned to add two employees after the relocation. An NBW loan of $158,181 was closed on 4/26/06 as part of a total project cost of $575,263.

Asset Management History: Unfortunately the relocation of this business resulted in greatly reduced customer traffic and sales despite its past customer base. This decline in sales resulted in the Borrower being regularly late in making payments. The loan was defaulted on 07/08/08 for failure to make required debt service payments. All attempts to work out the loan were unsuccessful due to the Borrower being unresponsive to the Department’s outreach. The Borrower declared bankruptcy on 06/08/09.

Current Status: The business is now closed. The lender in first position is in the process of foreclosing on the Borrowers personal residence. The loan will be forwarded to CCU for collection once the amount of the outstanding debt has been determined.

Loan 10217750 – 2/7/07

Project Summary: This restaurant was in business successfully for 3 years in a leased location in downtown Easton before deciding to relocate and expand to a new location. The business owners purchased and renovated a circa1920 3-story structure that had been neglected for years in an area that is a gateway to downtown Easton. An NBW loan of $100,000 was made on 2/7/07 as part of a total project cost of $416,000.

Asset Management History: The new location did not attract the same clientele as it had previously. As a result, the restaurant began losing money in early 2008, and was closed by June 2008. To the Borrower’s credit, they continued to make monthly debt service payments out of available cash. Additionally, the Borrower sought to sell both the business property and the principal’s personal residence; both properties are pledged as collateral for the first lien holder and DHCD, which is in second position.

The Borrower requested a forbearance period and relief of the interest rate until the properties were sold. On 6/15/09, a Note modification was approved reducing the interest rate from 7% to 3%, with interest only payments from 6/1/09 through 12/31/09, as well as capitalization of all accrued interest and fees. The Borrower was later given until 6/15/10 to sell both properties. She was unable to sell the properties by the deadline, and the first lien holder commenced foreclosure action to protect its position.

Current Status: Once the foreclosure is complete and the amount of the outstanding debt can be determined, the loan will be forwarded to CCU for collection.

Loan 10037800 - 5/4/07

Project Summary: This project entailed the rehabilitation and reuse of a vacant industrial structure in southeast Baltimore City to house two Asian-themed restaurants with the aim of replicating the success of the owners' similar restaurants operating in historic downtown Annapolis. This new project succeeded in creating 100 jobs upon its opening in **2007.** The Borrower has previously had an excellent track record with the NBW program, having succeeded in the operation of their original Annapolis restaurants, paying off their $80,000 loan for those restaurants in full in 10/05. An NBW loan of $350,000 was closed on 5/4/07 as part of a total project cost of $750,000.

Asset Management History: The downturn in the economy significantly affected the restaurant revenues. In response, the Borrower tried various methods to improve the likelihood for recovery. They altered the menu selections, streamlined the wait staff, and renegotiated the lease with the landlord. None of these measures were sufficient to increase sales and adequately cover debt service. In order to provide relief during a difficult economic time, the Department agreed to modify the loan on 12/10/08, deferring debt service payments for 9 months, extending the maturity date, and capitalizing all accrued interest and fees. In the end, these changes were insufficient to help the restaurant weather the economic storm; as a result, the owners decided to permanently close the new location. The Department defaulted the loan on 5/11/09.

The Borrower has relocated operations to historic West Street in Annapolis, a designated Community Legacy revitalization area (now called Sustainable Communities). .. The Department feels this provides an opportunity for the Borrower to reestablish cashflow and bring the loan current. This also results in the Borrower's operations being more geographically consolidated and in an area where the business owners are well known and have had consistent customer loyalty. To allow the Borrower time to establish the business in a new location, the Department approved a modification on 10/08/09 that capitalized all accrued interest and fees and converted payments to interest only until 05/01/10.

Current Status: The loan is current as of 6/30/10.

<u>Loan 10227830 -7/27/07</u>

Project Summary: This project in the historic downtown of Hagerstown entailed the renovation and expansion of the historic and long-vacant warehouse to be used as a community events center. An NBW loan of $384,000 was made on 7/27/07 as part of a total project cost of $840,000.

Asset Management History: Prior to completion of the project, the Borrower encountered construction cost overruns. A request was made by the Borrower for additional funds to cover the added costs in the amount of $174,000, which was approved by NBW on 8/7/08. This increased the total loan amount to $558,000. However, the two major tenants were only able to pay about half of the anticipated rent since the tenants had overestimated their own revenues. On 7/31/09, an allonge was approved allowing for the payment of interest only payments from 7/1/09 to 12/01/09.

Current Status: The loan was defaulted on July 9, 2010. DHCD is in the process of foreclosing on the property.

<u>Loan 10038030 - 10/26/07</u>

Project Summary: The project entailed the conversion of 3 adjacent historic row homes into 4,200 sq ft of commercial by an organization with a long history turning decay and blight into neighborhood revitalization. This project was part of an overall neighborhood strategy to revitalize neighborhoods North and East of Patterson Park in Southeast Baltimore through the acquisition of a number of troubled and blighted properties to redevelop into a viable mix of retail, office and residential space. An NBW loan of $300,000 was closed on 10/26/07 as part of a total project cost of $1,117,979.

Asset Management History: The loan closed on10/27/07 and for approximately 8 months, the Borrower made their scheduled monthly payments. Toward the end of 2008, when the Borrower was unable to lease up the space, all payments stopped. The following factors influenced the decline:

- The Borrower became over-leveraged in residential debt leading to insolvency as the housing market and housing values declined.
- The Borrower tried unsuccessfully to sell the property to the primary tenant.
- No first floor tenants materialized.
- Development in the area stagnated along with the economy

The Borrower entered into voluntary Chapter 11 bankruptcy on 2/17/09 and the loan was defaulted on 10/7/09.

Current Status: The first lien holder purchased the property at foreclosure on 3/16/10. Court ratification of sale is pending. The loan will be forwarded to the State's Central Collection Unit for collection once the amount of the outstanding debt has been determined.

Loan 10168070 – 1/18/08

Project Summary: This project entailed the renovation of a vacant storefront in the historic Main Street area of Takoma Park for use as a yoga studio. Takoma Park is 1of 23 Maryland Main Street communities, areas that are the focus of comprehensive revitalization strategies and investments by private, local and State sectors. An NBW loan of $171,500 was closed on 1/18/08 as part of a total project cost of $357,500.

Asset Management History: Due to the recession and the Borrower's overestimation of its ability to attract customers, revenues did not meet expectations and the Borrower requested relief. On 2/18/09, a Note modification was approved which capitalized all accrued interest payments. In September 2009, the Borrower continued to struggle to increase membership and requested additional relief. A second Note modification executed on 10/15/09 brought the loan current and provided for interest only payments from 10/01/09 to 05/01/10.

Current Status: The loan was 60 days late as of 6/30/10 but payments were subsequently made by the borrower to bring it current.

Loan 10048210 - 7/30/08

Project Summary: This project entailed the relocation of an entertainment and educational activity center for children between the ages of 2-10 within the Liberty Road Revitalization District, an area of Baltimore County that is not well served by day care and educational facilities. The project achieved two objectives of Baltimore County's Commercial Revitalization Program - retaining an existing business in the County and providing quality, community oriented services for residents in Randallstown. Working capital/start up capital was provided to this business after it was forced to relocate from its original location due to redevelopment pressures. An NBW loan of $55,000 was closed on 7/30/08 as part of a total project cost of $130,760.

Asset Management History: Unfortunately, the relocation of the business caused an unexpected loss of a significant number of clientele, the Borrower needed to restructure its debt. On 04/28/10, the Note was modified by capitalizing all delinquent interest and fees and lowering the interest rate from 5% to 4%.

Current Status: The loan was 30 days delinquent as of 6/30/10.

Loan 10108240 - 12/4/08

Project Summary: This restaurant is located within the Cambridge historic Main Street district and entailed the full renovation of an 83 year old building that had been vacant for several years. The investment aimed to build upon other State revitalization investments, particularly from the NBW, Community Legacy and Maryland Historic Rehabilitation Tax Credit programs. In the summer of 2008, the Governor designated the Cambridge Maple Street district as a Smart Site for State investment.

The restaurant is located in a high-traffic pedestrian area, within a very short walk from the courthouse, post office, library, business offices, retail stores and the City marina. The Borrower's first restaurant has been successful for 5 years in Talbot County. The new restaurant was projected to create up to 20 jobs. An NBW loan of $167,000 was made on 12/4/08 as part of a total project cost of $350,000.

Asset Management History: Due to the decline in the economy soon after the restaurant opened, revenues were insufficient to pay monthly debt service on its loan during the first year of operation. Sales were off approximately 50% of initial projections. In addition, the Borrower fell behind in rents to the landlord. A workout plan was approved which provided relief for the Borrower, but was not executed due the Borrower's inability to satisfy the terms of the plan. On 3/3/10, the loan was defaulted.

Current Status: The loan is delinquent. If a workout of the loan is unsuccessful, then DHCD will pursue repayment through the two Guarantors – the Borrower and the building owner.

Loan 10038060 - 2/10/09

Project Summary: This project entailed the purchase and renovation of a 2,700+ SF townhouse in the Central Baltimore neighborhood of Charles Village for commercial use by a top-ranked MBE firm specializing in advertising, event planning and graphic design. Charles Village is an historic and diverse neighborhood with a "Special Benefits District" designation as one tool for investing in community revitalization. The Borrower's expansion to Charles Village allowed the company to grow from 1 to 8 employees. An NBW loan of $190,000 was closed on 2/10/09 as part of a total project cost of $400,000.

Asset Management History: Due to the loss of two of the Borrowers largest advertising clients, the Borrower has requested, and DHCD has approved a modification that converts the monthly payments from the full principal and interest payments to interest only payments from 7/1/10 through 12/31/10, as well as the capitalization of all accrued interest and fees.

Current Status: As of 6/30/10, the loan was 60 days delinquent.