REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

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		Council File No.	12-0018
		Council District:	All

To: The Council
The Mayor

From: Miguel A. Santana, City Administrative Officer

Reference: Los Angeles Housing Department Transmittal dated December 20, 2011; Received by the City Administrative Officer on January 5, 2012; additional information received through June 28, 2012

Subject: **LOAN PORTFOLIO REPORT FOR PERIOD COVERING APRIL 1, 2009 THROUGH MARCH 31, 2011 AND RELATED ACTIONS**

SUMMARY

In a Transmittal dated December 20, 2011 (Transmittal), the Los Angeles Housing Department (LAHD) reported on the performance of the $1.05 billion loan portfolio over a period of two years, from April 1, 2009 through March 31, 2011, including receivable and program income trends, loan defaults and loss mitigation efforts. These activities and trends are detailed in Attachments 1 through 4b of the Transmittal. The Department requests authority to write off losses totaling $8.98 million from 116 loans due to determinations made by LAHD that these amounts are uncollectible. The loans and explanations are summarized in the Findings Section of this report and detailed in Attachments 6a and 6b of the Transmittal. In addition, LAHD requests authority to expend up to $1.5 million from special funds to pay for costs associated with protecting the City's liens, covenants and collateral as well as costs associated with the management and the disposition of LAHD-owned or controlled properties.

Subsequent to the release of the Transmittal, the Department also requested authority to dispose of a five-unit property located at 1211 E. 43rd Street to protect the affordable units. Additional detail is provided in the Findings Section.

This Office recommends approval of the LAHD's requests. In addition, as previously instructed by the Mayor and Council in 2010, our Office recommends that the LAHD be instructed to provide annual Loan Portfolio status reports and to request approvals as needed on an annual basis (C.F. 10-0294). Similarly, LAHD is instructed to report within 45 days with a policy recommendation that will affect the amount of time that the Department owns or controls properties acquired due to foreclosures or forfeitures. Additional discussion concerning this request is included in the Findings Section of this report.

Approval of the report recommendations will result in no impact on the General Fund. The recommendations comply with City Financial Policies because dedicated funds from the Housing Production Revolving Fund will fully pay for anticipated expenses.

Background

The LAHD issues loans that support the creation and preservation of affordable homeownership and rental housing opportunities for low and moderate income households. The Department's loan portfolio includes loans that are funded with Neighborhood Stabilization Program (NSP), Community Development Block Grant (CDBG), HOME Investment Partnership Program (HOME), and various other programs. The LAHD loan portfolio generates annual program income from periodic payment of principal and interest, partial loan repayments and loan payoffs, which supplements funding for the federal Consolidated Plan (Con Plan). Program income derived from repayment of CDBG loans is used to fund eligible housing, economic development, public services, neighborhood improvements and related administrative costs. Program income derived from repayment of HOME loans must be used to fund housing projects. Since 2009-10, LAHD has employed a methodology to analyze and project the program income generated by each loan type utilizing statistical trending over the past 10 years (C.F. 08-0097-S5). This methodology also involves adjustments necessary to reflect housing prices, inflation and interest rates. Attachments 3a through 3e provide details regarding program income and the related trends.

The LAHD staff services the unconventional portion of the loan portfolio, such as the service paybacks, forgivable and term loans, residual receipts and deferred and renewable deferred loans. The Department is responsible for the processing of loan payments, pay-off statements or demands, subordinations, reconveyances, assumptions and amendments, verifying mortgage information and for asset management. This includes housing loans that were originally made by the Housing Preservation and Production Department (now known as LAHD) and the Community Development Department.

The last Loan Portfolio Report was submitted in February 2010 and covered the period of April 1, 2002 through March 31, 2009 (C.F. 10-0294). This report addresses the period of April 1, 2009 though March 31, 2011. As of March 31, 2011, the end of the Consolidated Plan Program Year 37 (PY 37), the loan portfolio accounts receivable balance was $1.05 billion million representing 4,843 loans. Attachments 1 and 2 of the Transmittal provide a summary of loans and receivable balances by loan type for the performance period of March 31, 2006 through March 31, 2011. Subsequent to the release of the transmittal, the Department submitted a revised gross receivable balance. As of April 30, 2012, the gross receivable balance has increased to $1.13 billion. Additional information relative to the loan portfolio is included in the Findings Section of this report.

When the Department previously reported on the status of its loan portfolio in 2010, LAHD indicated that status reports addressing the entire loan portfolio will be provided to the Council and Mayor annually no later than March 31 of each year. However, the report submitted covers a two-year period from April 1, 2009 through March 31, 2011. Therefore, it is recommended that, as previously instructed, LAHD report to the Mayor and Council annually relative to the status of its loan portfolio (C.F. 10-0294). Similarly, LAHD was also instructed in 2010 to report relative to establishing a policy requiring the disposition and rehabilitation of Real Estate Owned properties under LAHD ownership or control within five years of assuming ownership or control, in conformance with established LAHD Loan Portfolio and Asset Management policies and procedures (C.F. 10-0294 and 99-1272). To date, this report has not been received. Therefore, LAHD is instructed to provide this report to the Mayor and Council within 45 days.

RECOMMENDATIONS

That the Council, subject to the approval of the Mayor:

1. Authorize the General Manager, Los Angeles Housing Department (LAHD), or designee, to write off $8,978,465 in principal and associated interest losses associated with 116 loans, as identified in Attachments 6a and 6b of the LAHD transmittal dated December 20, 2011 (Transmittal);

2. Authorize the Controller to:

   a. Establish a new account and appropriate funds within Fund No. 240, Housing Production Revolving, Department 43, as follows:

Account No.	Account Name	Amount
43H221	Asset Protection	$500,000

   b. Disencumber funds and transfer any uncommitted amount that becomes available from Account No. 43F221 to Account No. 43H221, not to exceed $1,000,000, within Fund No. 240, Housing Production Revolving, Department 43; and,

   c. Expend funds not to exceed $1,500,000 from Fund No. 240/43 Account No. 43H221, upon proper written demand from the General Manager, LAHD, or designee, for purposes of enforcing and protecting the City's liens, covenants and collateral; paying for costs associated with the security, management, maintenance, repair and insurance of LAHD-owned or controlled properties; and, for paying other costs associated with the disposition of LAHD-owned or controlled properties;

3. Authorize the Controller to:

   a. Establish a new account and appropriate funds within Fund No. 240, Housing Production Revolving, Department 43, for the rehabilitation of the property and to maintain affordability as follows:

Account No.	Account Name	Amount
43H341	Asset Protection - Plaza Vermont	$375,000

   b. Expend funds not to exceed $375,000, upon proper written demand from the General Manager, LAHD, or designee. Funds for expenses incurred will be reimbursed to the Asset Protection Account.

4. Authorize the General Manager, LAHD, or designee, to direct LAHD-approved brokers to conduct a sale of the five-unit property located at 1211 E. 43rd Street, subject to the purchaser's assumption of the existing regulatory agreement and approval of the City Attorney.

5. Authorize the General Manager, LAHD, or designee, to direct the real estate broker that was selected through a Request for Proposals to pursue the market-rate disposition of properties located at: 11150 Glenoaks Boulevard, Unit 86, Pacoima; 10219-10223 Main Street, Los Angeles; and,

11681 Foothill Boulevard, Sylmar, subject to the purchasers' assumption of the existing regulatory agreements and approval of the City Attorney.

6. Authorize the General Manager, LAHD, or designee, to negotiate and enter into an agreement with the current residents of 6577 Arlington Avenue, Los Angeles, for a sole source sale of the property, subject to the approval of the City Attorney.

7. Instruct the General Manager, LAHD, or designee, to:

   a) Submit a Loan Portfolio Report to the Council and Mayor no later than July 1 of each year covering the performance period through the end of the previous Consolidated Plan Program Year (April 1 through March 31), including but not limited to the following information: a) accounts receivable balances; b) collection of program income; c) identification of delinquent loans, loans in probate and bankruptcy, short pay offs and completed foreclosures; and, d) loan write off requests; and,

   b) Report to the Mayor and Council within 45 days relative to establishing a policy requiring the disposition and rehabilitation of Real Estate Owned properties under LAHD ownership or control within five years of assuming ownership or control, in conformance with established LAHD Loan Portfolio and Asset Management policies and procedures (C.F.10-0294 and 99-1272).

8. Authorize the General Manager, LAHD, or designee, to prepare Controller instructions and make any necessary technical adjustments consistent with the actions taken on this matter, subject to the approval of the City Administrative Officer, and authorize the Controller to implement these instructions.

FISCAL IMPACT STATEMENT

There is no impact on the General Fund. Approval of the recommendations will result in the write off of $8.98 million in losses from 116 loans that were deemed by the Los Angeles Housing Department (LAHD) as either uncollectible or are considered administrative corrections. In addition, expenditure authority of $1.5 million will be granted to allow LAHD to address costs associated with protecting the City's liens, covenants and collateral as well as costs associated with the management and the disposition of LAHD-owned or controlled properties. These recommendations comply with City Financial Policies because dedicated special funds will fully fund the proposed costs. The fund source will be the Housing Production Revolving Fund.

FINDINGS

1. Basis for Report

In a Transmittal dated December 20, 2011 (Transmittal), the Los Angeles Housing Department (LAHD) reported on its $1.05 billion loan portfolio and requests Council and Mayor approval to write off loans that are considered uncollectible. The LAHD also requests expenditure authority to support the daily operations of the Department's portfolio and asset management responsibilities. Our Office was instructed to report on this matter.

2. Summary of Loan Portfolio

The LAHD loans are grouped and tracked by the nine loan type categories summarized below. Attachments 1 through 4b of the Transmittal provide trend information from March 31, 2006 through March 31, 2011 for receivable balances, payoff amounts, program income collected as non-payoff and residual receipts, total loans in default and delinquent loans. The table below provides a summary of the receivable balances and number of loans for each loan type by Program Year.

	Program Year 2009-10 April 1, 2009 – March 31, 2010		Program Year 2010-11 April 1, 2010 – March 31, 2011	
Loan Type	**Receivable Balance 03/31/10** (millions)	**Number of Loans**	**Receivable Balance 03/31/11** (millions)	**Number of loans**
Deferred	$53.58	1544	$53.30	15
Principal Repayment Only	82.85	627	76.29	591
Interest Bearing	9.23	114	8.35	99
Service Payback	6.24	19	5.27	17
Forgivable Loan	1.93	155	1.89	145
Residual Receipts	690.16	370	750.91	390
Renewable Deferred	13.7	73	13.62	71
Term Loan	71.06	887	75.19	910
Equity Share	61.28	1019	67.26	1104
Totals	**$990.72**	**4808**	**$1,052.08**	**3342**

3. Write Off of Losses - $8.98 million

The Department requests authority to write off losses totaling $8.98 million from 116 loans due to determinations made by LAHD that these amounts are uncollectible. This write off request represents 0.6 percent of LAHD's $1.05 billion loan portfolio. This request includes $4.46 million in losses from Program Year (PY) 2009-10 and $4.53 million in losses from PY 2010-11, which are summarized in the table below:

	April 1, 2009 – March 31, 2010 (PY 2009-10)		April 1, 2010 – March 31, 2011 (PY 2010-11)		April 1, 2009 – March 31, 2011 TOTAL	
Loss Type	**Number of Loans**	**Amounts to be Written off**	**Number of Loans**	**Amounts to be Written off**	**Number of Loans**	**Amounts to be Written off**
Third-party foreclosure	19	$3,355,804	79	$4,113,204	98	$7,469,008
Short Payoff	3	708,404	9	394,517	12	1,102,921
Administrative	2	387,991	4	18,545	6	406,536
Totals:	**24**	**$4,452,199**	**92**	**$4,526,266**	**116**	**$8,978,465**

Third-Party Foreclosure

For PY 2010-11, an increase in third party initiated foreclosures resulted in 49 properties that reverted back to the senior lenders and effectively wiped out 79 LAHD junior liens from title. This attributed to over 91% of the total write-offs. These were all single family residences whose values have greatly declined in the current real estate market. For many properties, this has resulted in loan defaults and foreclosures. The diminished value of these LAHD properties not only led to foreclosure, but also to the loss of LAHD's investments because each of their values had fallen significantly below their senior liens. The average loan amount for each single family residence was approximately $52,000.

When a senior lender forecloses on a LAHD-secured property, the LAHD lien is eliminated. If there are insufficient sale proceeds from the foreclosure sale to payoff LAHD, the remaining balance requires a write-off. As of March 31, 2011, senior lender-initiated foreclosures were pending on 60 properties that secure LAHD loans with outstanding balances totaling $18.2 million.

The LAHD reports that from PY 2009-10 to PY 2010-11, 64 properties totaling $7.5 million in loans were eliminated through third-party completed foreclosures. A number of properties subject to foreclosure received multiple loans from LAHD which resulted in 98 loans associated with 64 properties. The creation of multiple loans for individual properties was often necessary in situations where a borrower qualified to receive funds from multiple loan programs and/or funding sources. To satisfy the requirements of the different funding sources the creation of different loans was often needed.

Of the $8.98 million write off request, the LAHD reported that the most significant is a $2.4 million request for one loan representing 27 percent of the total write-off request for PY 2009-10 and 2010-11. In PY 2009-10, there was a notable foreclosure by Fannie Mae on the Historic Hollywood Hillview Apartments. LAHD made a $2.4 million rehabilitation loan to create 54 market-rate units and commercial space. Commercial vacancies led to a Fannie Mae loan default. LAHD's attempts to delay foreclosure to explore remedial options were met by Fannie Mae's request for a $500,000 payment to grant a one week foreclosure delay. The property subsequently reverted to Fannie Mae through foreclosure on February 10, 2010. The LAHD loan was lost and a $2.4 million loan loss incurred.

When faced with foreclosures, LAHD relies on the proceeds from the sale of properties to recover its funds since the lien has been lost. When insufficient funds are recovered from a property sale, LAHD must request authority to write off the loss.

Short Payoff

In order to avert potential third-party foreclosures and allow LAHD to recover at least a portion of its original loan investment, the Department may accept a short pay. A short pay occurs when LAHD accepts less than full payment for a debt where the value of LAHD collateral has greatly declined. The remaining unpaid debt will be written off. From PY 2009-10 to PY 2010-11, LAHD accepted seven short pay proposals from single family home owners that resulted in principal and interest repayments of $307,579 and losses of $1.1 million to be written off. Had LAHD not accepted the short pay proposals, LAHD's loans would have been entirely wiped out in foreclosure.

Administrative

Of the approximately $4.45 million in recommended write offs in PY 2009-10, approximately $388,000, or nine percent, is due to administrative error. LAHD reports that this occurred because payments that were received were applied solely to principal rather than to principal and interest. Consequently, when a payoff of the loan was accepted, the interest due was neither recognized, nor addressed. This loss accrued to the Housing Authority of the City of Los Angeles (HACLA). LAHD has indicated the Department's recently developed Housing Information Management System (HIMS) includes a repayment module that will make it more difficult for future payments to be applied in error.

4. Expenditure Authority - $1.5 million

The LAHD requests authority to expend up to $1.5 million in funds from the Housing Production Revolving Fund (Fund No. 240) for payment of asset protection and loss mitigation costs associated with properties owned, controlled or financed by LAHD on an as-needed basis. These costs may involve: enforcement or protection of the City's liens, covenants and collateral; costs for security, management, maintenance, repair and insurance; and, other costs associated with the disposition of LAHD-owned or controlled properties. The anticipated expenditures are for continuing activities that include the payment of past due senior debt to avoid third-party foreclosure losses; the payment of delinquent taxes to avoid a tax sale; funding the receivership of at-risk collateral; and, to insure, manage, secure, clean, repair, and maintain properties acquired or controlled by LAHD.

The Department relies on the services of competitively selected contractors to ensure that properties are properly managed. For example, LAHD works with contracted property managers to: 1) provide short-term rental assistance to the previous owner or occupants, if required; 2) manage properties after acquisition and up until the transfer to a new owner or developer; 3) perform a rental survey to determine appropriate rental rates; 4) collect and account for rents; 5) draft leases and rental agreements; and, 6) manage repairs to properties acquired by LAHD (C.F. 12-0194).

LAHD is also requesting to appropriate $500,000 from the Housing Production Revolving Fund to replenish the asset protection and loss mitigation account. The proposed amount represents less than one quarter of one percent of the entire loan portfolio receivable balance. The level of funding authority is consistent with previous requests for similar purposes. The requested funds are from the unappropriated cash balance of Fund No. 240, derived from program income. These funds must be used for low and moderate income housing activities. Sufficient funds are available to cover the request.

5. Plaza Vermont Affordable Housing Payment - $375,000

On February 4, 2011, LAHD took possession of a 79-unit affordable housing complex, known as Plaza Vermont, through foreclosure action. In conjunction with the foreclosure action, LAHD negotiated an agreement with the limited partner to pay LAHD $375,000. The limited partners made this offer because LAHD's foreclosure action would wipe out the existing recorded regulatory agreement with the California Tax Credit Allocation Committee (TCAC) and potentially create a tax liability for the limited partnership. The agreement was contingent on LAHD recognizing and abiding by the TCAC regulatory agreement, thus avoiding any potential recapture liability for the limited partners. The agreement also stipulated that the $375,000 would be utilized to rehabilitate the property and maintain affordability of the rents. LAHD states that the Department entered into this agreement because it is consistent with LAHD's mission of providing affordable, decent, safe and sanitary housing stock in the City of Los Angeles. LAHD is requesting that these funds be placed in a special appropriation account that is solely for the use of the Plaza Vermont project as indicated. These funds can be used to reimburse LAHD's Asset Protection Account for the payment of eligible expenses that have already been incurred and paid.

5. Inventory and Disposition of REO Property

A Real Estate Owned (REO) property is owned or controlled by LAHD as a result of foreclosure or forfeiture. The LAHD may foreclose on a property if the owner is unable or unwilling to meet contractual obligations such as making payments or meeting affordability or habitability requirements. A property becomes an LAHD-controlled property because the market value of the property is less than the combined senior debt and LAHD debt. In the Transmittal, LAHD claimed ownership of 13 REO properties with a combined 225 units and two vacant sites. This list, which included properties as of March 31, 2011, has been updated to include data that is current, as of March 31, 2012. During PY 2009-10 and PY 2010-11, LAHD acquired three properties totaling 125 units through foreclosure. As of March 31, 2012, LAHD owns 11 REO properties representing 116 units and one 2.6 acre parcel of undeveloped land. LAHD states that as of March 31, 2012, foreclosure actions are pending on 21 properties securing 25 loans totaling $33.1 Million. LAHD notes that it pursues the responsible disposition of its REO properties in a manner that is consistent with LAHD's mission to provide decent and safe affordable housing. The updated list of REO properties is included as an Attachment to this report. Some of the properties have been under LAHD management since 1987-88 for reasons that vary.

In assuming ownership or control of an REO property, LAHD becomes responsible for maintaining the existing affordability and habitability requirements until a new owner or developer can be identified to ensure that affordable housing is maintained. The continued ownership of LAHD REO properties represents a potential liability to the City and is not the best use of City resources. If the ownership of an REO neither serves LAHD's mission, nor provides a public benefit, it is in the best interest of the City for LAHD to dispose of such properties as expeditiously as possible. Currently, there is no established time limit to restrict the Department's control over these properties. However, since the property values are below the market, LAHD does not anticipate that sufficient proceeds from the sale of these properties will materialize to recapture the LAHD loan amounts or related maintenance and management expenses. Since any additional expenses are most likely unrecoverable, it is recommended that the Council and Mayor approve as a policy that LAHD dispose of and rehabilitate REO properties within five years of assuming ownership or control. This will encourage the disposition of these REO properties so that the Department may focus greater attention on other aspects of the loan portfolio and reduce losses to the City. When the last loan portfolio report was considered, LAHD was instructed to report to the Mayor and Council with a policy relative to disposing of and rehabilitating REO properties (C.F. 10-0294). To date, this report has not been received. Therefore, it is recommended that LAHD report within 45 days on this matter.

Under existing policies, the Department must seek Council and Mayor approval to sell REO properties through the issuance of a Request for Proposals (RFP) and then dispose of the properties. The Department can submit disposition requests in conjunction with the Department's annual Loan Portfolio Reports, or sooner, as disposition opportunities materialize.
The Department requests authority to dispose of the following REO properties at this time:

Property Address	Property Type	Estimated Value
11150 Glenoaks Boulevard, Unit 86	Condominium Unit	$64,652
10219-10223 Main Street	Four-Unit Apartment	494,821
6577 Arlington Avenue	Single Family Residence	156,821
1681 Foothill Boulevard	Undeveloped Hillside Land	$2,100,000

LAHD notes that it would prefer to dispose of the various REO properties through an RFP process in which affordable units are either created or preserved; however, this would require a custom RFP as the Department's existing RFPs do not target the purchasers of single family residences. This would apply to the disposition of the Glenoaks, Main Street, and Arlington properties. LAHD states that this would require valuable staff time and resources, and given that the outcome of such an effort would be uncertain, the Department does not feel that this is the best use of limited City resources.

With regard to the undeveloped hillside land on Foothill Boulevard, LAHD determined through its prior efforts to develop this property that the costs of developing affordable housing on the hillside terrain at this site is cost prohibitive. The Department notes that they will likely not receive any proposals if they attempt to dispose of this site through an RFP.

The City Attorney determined that the disposition of the LAHD REO properties through the surplus property process was not appropriate because these properties are not considered "surplus" in the traditional sense, such as old libraries or schools, as they were acquired through a foreclosure or forfeiture and not acquired for general City business. Furthermore, LAHD's interest in these properties was acquired using federal funds, such as Home Investment Partnerships Program (HOME) or Community Development Block Grant (CDBG), for the purpose of promoting affordable housing. The federal funds are restricted and may not be used for the normal operations of government; rather, they must benefit very low, low, and/or moderate income persons. Therefore, it is not practical to offer these properties to other city agencies. As such, LAHD is requesting to use alternative methods to dispose of these properties.

Specifically, LAHD is requesting that three properties (Glenoaks, Main Street and Foothill) be marketed utilizing a City-approved real estate broker specializing in housing and commercial properties. LAHD is further requesting that a fourth property (Arlington) be sold through a sole source agreement as a means to convert long-term renters to homeowners. LAHD would return to the Mayor and Council for approval of the final terms of the sale. Subsequent to the release of LAHD's Transmittal, the Department requested authority to dispose of a five-unit property located at 1211 E. 43rd Street through a market-rate sale to protect the affordable units. Additional details regarding each of the properties are provided below. Our Office recommends approval of LAHD's requests to dispose of the following five properties:

<u>11150 Glenoaks Boulevard, Unit 86</u>
In 2002, LAHD made a $60,000 loan through the City's Soft-Second program to a borrower using Home

funds for the purchase of a condominium located at 11150 Glenoaks Blvd., Unit 86 which is currently vacant. LAHD is currently responsible for all HOA fees and insurance costs.

10219-10223 Main Street
In 2005, LAHD made a $175,000 loan utilizing HOME funds to a borrower for the purchase of a 4-unit property located at 10219-10223 Main Street. LAHD completed foreclosure on December 17, 2010, and paid off the senior lender using NSP funds.

On December 11, 2009, the City Council approved the selection of Altera Real Estate and Marcus and Millichap Real Estate Investment, Inc. as LAHD's real estate brokers for the purpose of assisting LAHD with a variety of real estate transactions, including the purchase and sale of City-owned properties (C.F. 09-0374 and 12-0194). LAHD is requesting authorization to direct the approved real estate brokers to pursue the market-rate disposition of the following properties: 11681 Foothill Boulevard, 11150 Glenoaks Boulevard, Unit 86, and 10219-10223 Main Street. A market sale through the approved brokers would be the timeliest method for these properties to be made available to the public. The brokers will also be responsible for marketing the sale of the properties making it more likely that the properties will be sold at a fair market price which can maximize recovery of LAHD's funds invested in these properties. LAHD will also stipulate that the single family residences be made available to low-income first-time home buyers, and would provide financing to enable acquisition of the property. LAHD notes that funds generated from the sales of the properties can be reinvested to serve LAHD's mission.

11681 W. Foothill Boulevard
In 1999, LAHD used approximately $1.4 million in HOME funds to finance the acquisition and pre-development of an undeveloped 2.6 acre hillside parcel located at 11681 W. Foothill Blvd. This site was acquired as part of a project for the new construction of 56 units of affordable rental housing of which 100 percent of the units were to be restricted to families of 60 percent or less of AMI. LAHD subsequently foreclosed on this site in December 2005 since the developer had abandoned the project claiming that development was no longer feasible.

The LAHD is requesting that the three aforementioned properties be disposed of and marketed utilizing a City-approved real estate broker specializing in housing and commercial properties.

6577 Arlington Avenue
In April 1988, the single family residence located at 6577 Arlington Avenue was foreclosed upon by the Community Development Department (CDD) for $68,301.75 in unusual circumstances. At the time of foreclosure, CDD reached an agreement to allow the prior owners to reside on the property if they continued to make payments on the existing first deed of trust loan which would be seen as rental payments. Although a rental agreement with CDD was contemplated, LAHD indicates that none was ever executed.

This property was brought to the attention of LAHD staff in 2005. Currently, LAHD is actively managing this property and a rental agreement has been executed with its senior citizen residents. The loan that the residents were paying as a form of rent has since been paid in full.

Given the unusual circumstances of the residents' 24-year tenancy of the subject property, LAHD is seeking authorization for a sole source market rate sale, which would additionally enable LAHD to avoid a significant relocation cost obligation to its current long-term senior tenants. In the event that a sole source sale of the property cannot be completed, LAHD is also seeking authorization to dispose of this property through the LAHD approved broker to a low-income first time home buyer. As noted above, LAHD would return to the Mayor and Council for approval of the final terms of sale.

The City Attorney has expressed concern that potential buyers may argue that they were unfairly denied the opportunity to purchase the property, and that the reasons justifying the sole source sale are unsupported; however, the City Attorney has indicated that there is a relatively low probability of any such lawsuit being successful in light of the discretion bestowed upon the City Council pursuant to City Charter Section 7.27.

<u>1211 E. 43rd Street</u>

Subsequent to the release of LAHD's Transmittal, the Department requested authority to dispose of a five-unit property located at 1211 E. 43rd Street to protect the affordable units. LAHD reports that in 1997, the Department provided a $248,660 HOME Investment Partnerships Program (HOME) funded loan to the Dunbar Economic Development Corporation (DEDC, Borrower) for the rehabilitation of a five-unit property located at 1211 E. 43rd Street. The Borrower also executed a 40-year Regulatory Agreement restricting four of the units to 50 percent maximum Area Median Income (AMI) and one unit to 35 percent maximum AMI. The Department notes that by 2011, DEDC had become a troubled organization as its corporate status had been suspended by the State of California. LAHD was provided no expectation that this issue would be remedied by the Borrower. As such, foreclosure action was pursued by LAHD on the basis that this material adverse change in the condition of the Borrower gave the Department reasonable cause to believe that the project would not be operated according to the terms of the loan documents. This property subsequently reverted to the City at a foreclosure sale on January 6, 2012.

Per an appraisal of June 2010, this property was valued at $205,000. There is an existing senior lien on the property of approximately $60,000. LAHD reports that a market rate sale of 1211 E. 43rd Street would enable the Department to make this property available to the public in the timeliest manner possible and maximize the recovery of City funds invested. To protect the affordable units created, LAHD will require that purchasers assume the existing regulatory agreement.

Annemarie Sauer

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Senior Administrative Analyst II

MAS:AS:02120104c

ATTACHMENT

Los Angeles Housing Department
Real Estate Owned (REO)
as of March 31, 2012

Project Name	Property Address	Zip Code	Property Type	Acquisition Date	Source of Funds	Council District	No. of Units	Current Status
Eastlake & Altura Walk REO	2516 Eastlake Ave., Los Angeles 3211-3213 1/2 Altura Walk, Los Angeles	90031 90031	1-Single Family & 1-Multi-Family	11/14/1995	424/K223 - CDBG : $137,684.37	1	5	Acquired by LAHD to rehabiliate site of criminal activity. Purchase of the property is being considered by East Los Angeles Community Corporation.
Lakeview Terrace REO	11681 Foothill Blvd., Sylmar	91342	Vacant Land (2.6 Acres)	12/28/2005	561 - HOME Regular : $1,828,826.30	7	0	Acquired through LAHD foreclosure due to borrower non-performance. Seeking Council Authorization for the Market Sale of the property through a RFP selected broker under contract to LAHD.
Tupper/Tobias REO	9273 N. Tobias Ave., Panorama City	91402	Child Care Center	2/28/2006	424- CDBG : $225,615.00	7	1	Acquired through negotiated settlement with borrower. Completion of sales agreement with non-profit in progress.
San Pedro REO	819 W. 4th Street, San Pedro	90731	Apartment	9/11/2006	100/44G/T211 General Fund: $70,158.43	15	10	Acquired through a Tax Sale. Exclusive Negotiation Agreement has been executed with a developer selected through an RFP. The completion of the Sale is pending.
Arlington REO	6577 Arlington Ave., Los Angeles	90043	Single Family	4/5/1988	424- CDBG :$27,500.00 ; unknown funding sources: $68,301.75	8	1	Acquired by CDD Foreclosure. Former owner resides on premises. Seeking Council Authorization for a sole source sale of the property to the current residents at a market price.
Glenoaks REO	11150 Glenoaks Blvd. #86, Pacoma	91331	Condo	11/20/2008	561 - HOME Regular : $102,000	7	1	Acquired through third party foreclosure to protect LAHD loan on property. Seeking Council Authorization for the Market Sale of the property through an approved broker under contract to LAHD.
43rd Street Apts REO	1211 E. 43rd Street, Los Angeles	90011	Apartment	1/6/2012	561 - HOME Regular : $239,167	9	5	Disposition of property to be determined.
81st Street REO (Greater Bethany)	851 W. 81st Street, Los Angeles	90044	Apartment	1/5/2009	561 - HOME Regular : $673,117	8	8	Acquired through LAHD foreclosure due to borrower non-performance. Sold to RNLA on 4/30/2012.
Ralston Polk Site REO	12568 San Fernando Rd, Los Angeles	91342	Single Family	SFR: 12/9/2005 ; Land: 9/23/1969	SFR - 44G Affordable Housing: $800,000	7	1	Joint LAHD/GSD RFP to develop a 32 detached condo units,mixed-income homeownership project "for-sale" (CF05-1397)
Rampart REO	252 S. Rampart Blvd, Los Angeles	90057	Single Family	4/23/2010	424 - CDBG : $129,045	13	1	Acquired through LAHD foreclosure due to borrower non-performance. The property is vacant and boarded. The disposition and rehabilitation of the property is expected to be achieved through a NOFA process; proposed deal with RNLA pending.
Main Street REO	10219-10223 S Main Street, Los Angeles	90003	Apartment	12/17/2010	561 - HOME Regular : $175,000	8	4	Acquired through LAHD foreclosure due to borrower non-performance. Seeking council authority for sale.
Plaza Vermont REO	960 62nd PL, Los Angeles	90035	Apartment / Vacant Land	2/4/2011	424- CDBG : $5,012,107	9	79	Acquired through LAHD foreclosure due to borrower non-performance. Proposals for RFP concerning disposition of property received 5/12/12. Proposals currently being evaluated and scored
TOTAL NUMBER OF UNITS							116	

Source: Los Angeles Housing Department