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HOUSING, COMM & ECON. DEVELOP.

SEP 18 2012

MOTION

During the height of the foreclosure crisis in Los Angeles, in 2007-2008, foreclosures and notices of default rose almost 800% in one year. During that year, 1050 houses were going into foreclosure proceedings monthly in Los Angeles County and in the San Fernando Valley, between 250 and 300 houses were foreclosed on each month. The foreclosure crisis has increased blight within our communities, depressed housing prices across the board and increased public safety concerns such as squatters, vandalism and even health issues related to stagnant pool water. Additionally, it has devastated families, who now find their mortgages underwater and their equity dramatically reduced.

Since the foreclosure crisis began, federal, state and local dollars were spent on trying to help keep families in their home – offering foreclosure counseling services, working with banks to attempt to renegotiate mortgage terms and attempting to reduce the principle balance for homeowners who were underwater. However, on countless occasions banks have refused to negotiate or reduce the principal balance – even when given monetary incentives. Too often, big banks and mortgage lenders have chosen foreclosure over helping keep families and individuals in their homes.

Because of this unprecedented number of foreclosures and the financial and public safety impact on local economies, municipalities across the nation are trying to find ways to protect their communities and help keep homeowners in their homes. The County of San Bernardino is currently looking into a very unique solution, as they a pursing a program to use eminent domain to help homeowners with distressed mortgages. However, according to news reports, rather than seizing homes, San Bernardino County and several towns in it intend to seize the mortgages, and replace those mortgages with more affordable ones that would reduce the homeowners' debts and allow them to keep their homes.

In the plan that is being pursued in San Bernardino County, as well as being looked at by the cities of San Francisco and Berkley, is a program being pitched by Mortgage Resolution Partners. In Mortgage Resolution Partners plan, local governments would identify which loans are most likely to default or which have defaulted, and then "seize" them using eminent domain. Then Mortgage Resolution Partners would use its investors' dollars to pay off the holder of the mortgage at a fair market rate. The county, once securing the loan notes, would modify the loans to current market value, which would lower monthly mortgage payments and allow homeowners to build equity. The loans would then be sold to hedge and pension funds or other investors, with the proceeds being used to pay off the outside investors who funded the eminent domain process. In the end, it would all come at little to no cost to taxpayers, according to the firm.

Clearly, the history of eminent domain is that it is typically used by government as a tool to acquire private property, at fair market value and via court order, for redevelopment or infrastructure projects, including building highways or new development projects. However, this new use of eminent domain to help protect homeowners and reduce the devastating impact of foreclosures in our community deserves research and consideration.

I THEREFORE MOVE that the Chief Legislative Analyst (CLA) work with the City Administrative Officer (CAO), Office of the City Attorney and other necessary departments to review and report back to the Los Angeles City Council within 60 days on the efforts of San Bernardino County and other municipalities to use eminent domain to seize mortgages to protect underwater homeowners; and

I FURTHER MOVE that the report also include recommendations on how the City of Los Angeles could use a similar program to combat foreclosures within our City.

PRESENTED BY:

**RICHARD ALARCÓN**
**Councilmember, 7th District**

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SECONDED BY:

ORIGINAL