Los Angeles
HOUSING + COMMUNITY
Investment Department

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Eric Garcetti, Mayor
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Council District:	Citywide
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Honorable Eric Garcetti
Mayor, City of Los Angeles
Room 303, City Hall
200 N. Spring Street
Los Angeles, CA 90012

Attention: Mandy Morales, Legislative Coordinator

TRANSMITTAL: REQUESTING AUTHORITY TO WRITE-OFF LOAN LOSSES FOR PROGRAM YEARS 38, 39, and 40

SUMMARY

The Los Angeles Housing and Community Investment Department (HCIDLA) is requesting Mayor and Council authority to write-off loan losses incurred during the period from April 1, 2012 through December 31, 2014. These include losses in Program Year 38 (April 1, 2012 to March 31, 2013), Program Year 39 (April, 1 2013 to March 31, 2014), and partial Program Year 40 (April 1, 2014 to December 31, 2014).

RECOMMENDATIONS

The General Manager, HCIDLA, respectfully requests:

1. That your office schedule this transmittal with the appropriate Council Committee(s) for review and approval at the next available meeting(s) and forward it to the City Council for review and approval immediately thereafter;

2. That the City Council:

   a) Authorize the General Manager, HCIDLA, to write-off the following losses:

i. Program Year 38 – Write-off 36 single family loans totaling $2.06 million in principal and associated interest.

ii. Program Year 39 – Write-off 46 single family loans totaling $2.37 million in principal and associated interest.

iii. Program Year 40 – Write-off 9 single family loans totaling $450,000 in principal and associated interest.

b) Authorize the General Manager, HCIDLA, or designee, to prepare Controller instructions and make any necessary technical adjustments consistent with the Mayor and City Council actions, subject to the approval of the City Administrative Officer (CAO), and authorize the Controller to implement these instructions.

3. The Mayor concur with the actions of the City Council.

BACKGROUND

HCIDLA's mission includes the promotion, development and preservation of decent, safe and affordable housing for lower and moderate-income persons. HCIDLA pursues its mission utilizing grant funding from the United States Department of Housing and Urban Development (HUD), including: HOME Investment Partnership (HOME), and the Community Development Block Grant (CDBG),) and other sources, such as Municipal Housing Finance Fund (MHFF), and tax-increment financing generated by the former Community Redevelopment Agency of the City of Los Angeles (CRA/LA).

Over the years, HCIDLA has operated a variety of affordable housing programs that provide loans and grants for the development and preservation of affordable housing in the City. These programs range from the Affordable Housing Trust Fund to loans and grants provided to individual property owners for housing rehabilitation and assistance to homebuyers purchasing their first home. Currently, HCIDLA's affordable housing loan portfolio consists of over 5,300 loans with a receivable balance of $1.9 billion representing approximately 41,000 affordable housing units.

The HCIDLA's affordable housing loan portfolio includes loans for single family homes. These loans include purchase assistance loans for first time homebuyers and housing rehabilitation loans to assist lower and moderate income residents to make needed repairs and improvements to their home. Typically, the single family purchase assistance and rehabilitation loans are subordinate to other home mortgages and are deferred repayment loans requiring repayment when the homes are sold or title is otherwise transferred. Currently, HCIDLA's affordable single family home loan portfolio consists of over 4,400 loans with a receivable balance totaling $418 million.

Periodically, loans cannot be repaid due to foreclosure, bankruptcy, or other actions and must be written off as uncollectable. The recent foreclosure crisis and recession in the economy has resulted in some bank foreclosures involving single family properties that were assisted by HCIDLA loan programs. During the period from April 2012 through December 2014, 51 HCIDLA loans were eliminated as a result of foreclosure by a third party senior mortgage holder or the borrower filed for bankruptcy. In addition, HCIDLA accepted short-sale payments for 37 loans on properties in order to prevent a foreclosure from occurring and allow HCIDLA to recover a portion of the loan repayment. One loan was reduced through a dispute resolution. HCIDLA is seeking authority to write-off $4,870,063 in uncollectable loan balances that were affected by foreclosure, short-sale and loan reduction actions that have occurred.

LOAN LOSSES DUE TO FORECLOSURE

HCIDLA's purchase assistance and rehabilitation loans are typically subordinate to other senior mortgage loans on a property. As a result, HCIDLA's loans are vulnerable to foreclosure actions taken by other senior mortgage lenders. In California, when a lender forecloses on a mortgage loan, the property that secures the loan is typically offered for sale to the public at a Trustee Sale. At a Trustee Sale, the foreclosing lender sets a minimum sale amount for the property and interested purchasers make bids to purchase the property. The property is sold to the highest bidder with a bid above the minimum sales price. If the sales proceeds are insufficient to repay the senior lender's loan balance, then all subordinated lenders' loans are eliminated without payment. Only to the extent that sale proceeds exceed the senior lender's loan balance, will other subordinate loans be repaid. Thus, when a senior mortgage lender forecloses on a property that secures an HCIDLA subordinate loan and there are insufficient proceeds from the foreclosure sale to repay the loans, HCIDLA's unpaid subordinate loan balance is eliminated without payment.

For each loan default and pending foreclosure by a third party senior mortgage lender, HCIDLA staff performs an analysis of the loans and property value to determine if sufficient proceeds are available to repay the HCIDLA loan. If sufficient proceeds are anticipated, staff tracks the foreclosure and may attend the foreclosure sale to ensure that bids are sufficient to repay the HCIDLA loan. However, in recent years, during the recession and downturn in the economy, housing values were often less than the senior mortgage loans and proceeds from the trustee foreclosure sales were not sufficient to fully repay HCIDLA's subordinate loans.

Table 1 below shows HCIDLA's loan losses incurred during Program Years 38, 39, and 40 (through December 31, 2014) as a result of third party senior lender foreclosures. All of the foreclosures correspond to single family (1-4 units) properties with HCIDLA loans. Combined, these third party foreclosures represent loan losses of less than 0.67 percent (0.67%) of HCIDLA's receivable loan balance for single family loans.

TABLE 1
THIRD PARTY FORECLOSURES FOR LOAN WRITE-OFF
APRIL 2012 – DECEMBER 2014

Third Party Foreclosures	PY 38 (4/2012 – 3/2013)	PY 39 (4/2013 – 3/2014)	PY 40 (4/2014 – 12/2014)	Total (4/2012–12/2014)
Number of Loans	21	22	8	**51**
Write-off Amounts	$1,258,429	$1,093,986	$445,888	**$2,798,303**

When notified of a pending default and third party foreclosure, HCIDLA staff contacts borrowers to notify them of the default and provide contact information for HUD certified and local foreclosure counseling agencies that can protect borrowers from fraud and assist them to obtain a loan modification and negotiate with the foreclosing lender.

LOAN LOSSES DUE TO SHORT SALE PAYOFFS

In order to avert potential third party foreclosures and allow HCIDLA to recover at least a portion of its original loan investment, the HCIDLA may accept a short sale payoff off of its loan. In a short sale, the current market value of a property is less than the amount owed on the property. Thus, when a short sale occurs, there are insufficient proceeds to fully pay off the debt owed on the property and the mortgage lenders agree to accept a lesser amount than owed as repayment for their loans. Typically, in a short sale, both the senior mortgage lender and HCIDLA accept an amount less than the amount owed as repayment of their respective loans. This allows the senior mortgage lender and HCIDLA to recover some portion of their loans.

Table 2 below shows the HCIDLA's loan losses incurred during Program Years 38, 39, and 40 (through December 31, 2014) as a result of short sale payoffs. All of the short-sale payoff correspond to single family (1-4 units) properties with HCIDLA loans. The total short sale payoff loan losses are less than 0.47 percent (0.47%) of HCIDLA's receivable loan balance for single family loans.

TABLE 2
SHORT SALE PAYOFFS FOR LOAN WRITE-OFF
APRIL 2012 – DECEMBER 2014

Short Sale Payoffs	PY 38 (4/2012 – 3/2013)	PY 39 (4/2013 – 3/2014)	PY 40 (4/2014 – 12/2014)	Total (4/2012–12/2014)
Number of Loans	14	22	1	**37**
Write-off Amounts	$791,308	$1,169,863	$3,138	**$1,964,309**

TOTAL LOAN LOSSES

In addition to the third party foreclosures and short sale payoffs, the HCIDLA incurred loan losses as a result of a dispute settlement in Program Year 38 that reduced a borrower's loan balance and two bankruptcy proceedings in Program Year 39 that resulted in the courts' discharge of the borrowers' debt. The combined loan losses for which HCIDLA is seeking loan write-off authority are summarized in Table 3 below. The write-off for all loan losses during these periods total $4,870,063 which represents 0.25% of HCIDLA's $1.9 billion loan portfolio. Attachments 1-3 provide additional detailed information on the specific loans requiring write-off authority.

TABLE 3
ALL LOAN LOSSES FOR WRITE-OFF
APRIL 2012 – DECEMBER 2014

Loss Type	PY 38 (4/2012 – 3/2013)		PY 39 (4/2013 – 3/2014)		Partial PY 40 (4/2014 – 12/2014)		Total PY 38-40 (4/2012 – 12 / 2014)	
	No. of Loans	Write-Off Amount	No. of Loans	Write-Off Amount	No. of Loans	Write-Off Amount	No. of Loans	Write-Off Amount
Third-party Foreclosure	21	$1,258,429	22	$1,093,986	8	$445,888	**51**	**$2,798,303**
Short Sale Payoff	14	$ 791,308	22	$1,169,863	1	$3,138	**37**	**$1,964,309**
Dispute Settlement	1	$5,699	0	0	0	0	**1**	**$5,699**
Bankruptcy	0	$0	2	$101,752	0	0	**2**	**$101,752**
Totals:	**36**	**$ 2,055,436**	**46**	**$ 2,365,601**	**9**	**$449,026**	**91**	**$4,870,063**

FISCAL IMPACT

There will be no fiscal impact on the City General Fund.

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Attachments:
Attachment 1 - Write-Off Items - Program Year 38
Attachment 2 - Write-Off Items - Program Year 39
Attachment 3 - Write-Off Items - Program Year 40