

TRANSMITTAL

To:

THE COUNCIL

Date:

JUN 15 2010

From:

THE MAYOR

TRANSMITTED FOR YOUR CONSIDERATION. PLEASE SEE ATTACHED.

Brett Messing

ANTONIO R. VILLARAIGOSA

Mayor

CITY OF LOS ANGELES

CALIFORNIA

RICHARD L. BENBOW
GENERAL MANAGER

COMMUNITY DEVELOPMENT
DEPARTMENT

1200 W. 7TH STREET
LOS ANGELES, CA 90017



ANTONIO R. VILLARAIGOSA
MAYOR

June 2, 2010

Council File No.: 94-056
Council District: 8
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OFFICE OF THE MAYOR
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CITY OF LOS ANGELES

Honorable Antonio R. Villaraigosa
Mayor, City of Los Angeles
Room 303, City Hall

Attention: Pamela Finley, Legislative Coordinator

COMMITTEE TRANSMITTAL: REQUEST AUTHORITY TO SELL TWO PROPERTIES ACQUIRED AS A RESULT OF FORECLOSURE ON THE DEFAULTED CDBG LOANS

In this transmittal, the Community Development Department (CDD) is requesting the required authorities to take necessary actions to sell two foreclosed properties in order to recover the outstanding balance of a defaulted loan and to replenish Community Development Block Grant (CDBG) funds. In addition, CDD requests authority to write off the uncollectible amount of the unpaid accrued interest that is expected to remain outstanding, after the sales proceeds are collected and all costs and expenses are paid. The net uncollectible interest amount will be determined only after the disposition of the Properties.

RECOMMENDATIONS

The General Manager of CDD requests that the Mayor and City Council:

1. Authorize the General Manager of CDD, or designee to declare the properties located at 12243 Blakely Ave. and 5510 S. Manhattan Pl. (Properties) as surplus properties and to sell the Properties through the City's Surplus Sales Procedures;
2. Authorize the General Manager of CDD, or designee to issue a request for proposals in order to procure the services of a professional broker and asset manager in order to manage the Properties until they are sold;

3. Instruct the General Manager of CDD, or designee to negotiate and execute all documents necessary for the sale of the Properties, subject to the approval of the City Attorney as to form and legality;
4. Authorize the General Manager of CDD, or designee to write-off the amount of any uncollectible accrued and unpaid interest related to Contract No. 89873 between the City of Los Angeles and Tri-Afram Enterprises Inc.;
5. Authorize the General Manager of CDD, or designee to expend from Fund 100/22 CDD Account 3040 Contractual Services, up to \$15,000, for property management services and maintenance of the Properties.
6. Authorize the General Manager of CDD, or designee to expend from Fund 100/22 CDD Account 1010 Salaries General, up to \$100,000, to repay the existing two mortgages with first deed of trust security interest in the Properties and cure defaults under the first deed of trust mortgages; and
7. Authorize the General Manager of CDD, or designee to prepare Controller's instructions and/or make any other technical adjustments that may be required, and are consistent with these actions, subject to the approval of the City Administrative Officer, and instruct the Controller to implement the instructions.

FISCAL IMPACT

There is no impact to the General Fund as a result of the actions recommended in this transmittal.

The services needed to protect, maintain, and dispose the Properties will be funded from the gross rental revenue of the Properties; with the sale and residual costs paid from the dedicated special CDBG funds.

BACKGROUND

In April 1994, as per Council File No. 94-0561, the CDD made a business loan of \$450,000, using CDBG funds. The loan was secured by three single-family dwellings (Collateral). The borrowers have been in default since late 1994. In December 2009, following an exhaustive workout effort, CDD received partial repayment of \$348,263.08 from the net proceeds of a voluntary sale of one of the three properties comprising the Collateral. On January 21, 2010, CDD foreclosed on the other two properties through trustee sale proceeding. This transmittal is requesting the authorities required to sell the properties the City now owns as a result of the foreclosures and to deposit the net sales proceeds to the Community Development Block Grant Fund.

On April 19, 1994 the City Council authorized CDD to negotiate and execute a CDBG Small Business Fund Loan Agreement (Council File No. 94-0561) with Tri-Afram Enterprises, Inc. (Borrower). Loan proceeds were used to purchase inventory and

equipment for the Adams West Town Center Market, located at 2635 S. Western Ave., which is in Council District 10.

As part of the agreement, the loan was secured by three (3) single-family dwellings, which were not owner-occupied, but rather as rental properties. The properties were owned by the following:

Terdema and Jean Ussery: 12243 Blakely Ave.

Wallace and Joyce Taylor Ussery: 5510 S. Manhattan Pl.

Earl and Josephine Jones: 1119 –1121 Crescent Heights Blvd.

Although the total loan amount was \$450,000, the three deeds of trust each had a stated amount, limiting the maximum recovery from any one property against the principal and accrued interest.

The Borrower's loan has been in default after only one payment under the note. CDD was successful in negotiating voluntary repayment from only one of the properties comprising the collateral; that is from Earl and Josephine Jones. However, after exhausting all good faith efforts to negotiate a fair repayment with the two other members of the Borrowing entity, CDD executed a non-judicial foreclosure by use of the trustee sales proceeding.

The trustee sale was executed on January 21, 2010, but no bids were made. As a result, the ownership of the two single-family dwellings located on 5510 S. Manhattan Pl. (Manhattan Property) and 12243 Blakely Ave. (Blakely Property) was transferred to the City of Los Angeles. The Manhattan Property (Assessor's Parcel Number 5005-31-009) is located in Council District 8, while the Blakely Property (Assessor's Parcel Number 6148-021-018) is located in unincorporated Los Angeles County.

In order to recover the outstanding CDBG loan, CDD must sell the two Properties. The Properties are not owner-occupied and a single tenant occupies each. Additionally, each property is encumbered by a first deed of trust that was recorded prior to the City loan. CDD plans to sell the Properties without evicting the tenants, which should preclude the need for relocation.

Outstanding Loan Balance and Value of Properties

The primary purpose of foreclosure has been to recover the remaining balance of the CDBG loan and to the extent possible, the interest amount accrued and unpaid thereon. The amount recovered from the sale of the Crescent Heights property was \$348,263.08, which was applied exclusively towards the principal.

As of March 2010, total accrued interest due and payable to CDD for the \$450,000 loan was \$385,993.54. The recovered sum of \$348,263.08 from the Crescent Heights property was applied towards the principal amount due, and thus, the current principal sum of \$101,236.92 remains outstanding. Upon disposition of the properties, net

proceeds will be applied first towards the principal and the balance, to the extent available, towards the unpaid accrued interest amount owed to CDD.

Based on recent appraisals performed for Bank of America in September 2009, market values, using the sales comparison approach, were \$182,000 and \$190,000 for the Blakely and Manhattan properties, respectively. The properties are subject to current encumbrances of deeds of trust, with Bank of America as named beneficiary, each for sum of \$50,000.

Once the Properties are disposed, from the net proceeds, CDD will: 1) repay the existing mortgages, where the exact payoff amount of the two loans is currently unknown; and 2) deposit the net sale proceeds to the Community Development Block Grant Trust Fund 424.

Rental Revenue

Upon foreclosure, CDD staff notified the tenants of the changed ownership. In addition, an official letter was sent to the tenants on February 1, 2010, notifying them of the changed ownership via certified mail, requesting the rents be paid to the City of Los Angeles. The rent paid by tenant in the Blakely property is \$800 per month, and rent paid by the tenant in the Manhattan property is \$380 per month.

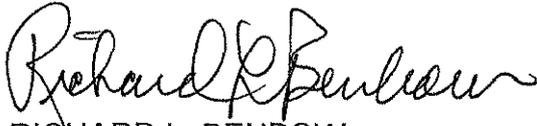
Foreclosure Cost and Estimated Operating & Disposition Costs

The estimated costs are summarized as follows:

- Foreclosure – CDBG funds have incurred costs amounting to \$7,654 for the trustee foreclosure proceedings;
- Mortgage Obligation – With respect to the two mortgages aggregating to \$100,000, mortgage payment obligation is not known as of yet, since the lender (Bank of America) has not made a claim nor provided an invoice for the mortgage installments;
- Property and Casualty Insurance - The properties are insured pursuant to the City's self insurance program, at no direct cost to the CDBG funds;
- Maintenance Costs and Expenses – As per GSD, operating costs and expenses of comparable properties is about 20 percent of gross rents; and thus, amounting to the projected amount of \$236 per month; and
- Sales Broker – A sales broker fee for sale of the properties is expected to be up to six percent of the sales price. If the properties are sold at the appraised market value of \$372,000; estimated broker's fee would be about \$22,320; resulting in approximate net proceeds of \$249,680, that is less \$100,000 for repayment of the two first mortgages.

NECESSARY AND APPROPRIATE STATEMENT

The authorizations sought in this transmittal are necessary for the CDD to administer CDBG funds and recover the CDBG loans by means of liquidating the underlying collateral.

A handwritten signature in cursive script, appearing to read "Richard L. Benbow".

RICHARD L. BENBOW
General Manager

RLB:RS:NYB:ss