



Date: 10/22/14  
Submitted in Housing Committee  
Council File No: 1  
Item No.: 12-0647-56



Eric Garcetti, Mayor  
Rushmore D. Cervantes, General Manager

Communication from the  
Housing and Community  
Investment Dept.

October 22, 2014

Council File: 12-0647 S6  
Council Districts: Citywide  
Contact Person(s):  
Helen Morales (213) 808-8660  
Roberto Aldape (213) 808-8826

The Honorable Gilbert Cedillo  
Council Member and Housing Committee Chair,  
City of Los Angeles  
200 N. Spring Street, Room 303  
Los Angeles, CA 90012

## **REPORT BACK ON THE CURRENT STATUS OF THE FORECLOSURE REGISTRY PROGRAM**

### **Summary**

The City of Los Angeles adopted the Foreclosure Registry Ordinance (Ordinance) in June 2010 to establish a registration program for foreclosed properties as a mechanism to protect residential neighborhoods from becoming blighted through the lack of adequate maintenance and security of abandoned properties as a result of the foreclosure crisis.

On June 3, 2014, Councilmembers Cedillo, Krekorian and Wesson introduced a motion (Council File Number 12-0647-S6) requesting the following:

- 1) The City Attorney, with the assistance of the Los Angeles Housing and Community Investment Department (HCIDLA), Los Angeles Department of Building and Safety (LADBS), Chief Legislative Analyst (CLA) and City Administrative Officer (CAO), to prepare and present an ordinance to amend the Foreclosure Registry Ordinance to require lenders to pay a pro-active inspection fee at the time a property changes status from Notice of Default (NOD) to Real-Estate Owned (REO);
- 2) The CAO, with the assistance of the CLA and LADBS, be instructed to report on a fee analysis based on the needed LADBS personnel to carry out the inspection of bank-owned properties;

- 3) The HCIDLA report on the number of properties where the banks issued an NOD and HCIDLA failed to register with the City including amounts of fines that could have been collected;
- 4) The HCIDLA, with the assistance of the CLA report on a cost analysis to upgrade the technology for better coordination between LADBS and any other involved City departments.

This report provides responses to items three and four.

### **Notice of Defaults**

The Ordinance requires any beneficiary or trustee, who holds, or has an interest in, a deed of trust on a Property in Foreclosure, to register with the Foreclosure Registry within 30 days of the issues of the Notice of Default. Property in Foreclosure has been defined as any property in which a Notice of Default has been issued by a lender, mortgagee, or beneficiary of any deed of trust. Therefore, the issuance of a Notice of Default commences the requirement to register with the Foreclosure Registry.

The Ordinance provided an exemption for those properties that registered with the Mortgage Electronic Registration System (MERS). MERS was provided as an exemption because of representations by MERS that relevant information, required under the Ordinance, would be made available to HCIDLA and satisfied the requirements therein. However, when it was later determined by HCIDLA that the representations made by MERS were not accurate and as a result, HCIDLA was unable to reconcile foreclosure registration between the two systems. HCIDLA subsequently recommended to the Mayor and City Council to remove the MERS exemption. The Foreclosure Registry Ordinance was amended effective January 2013 to remove the MERS exemption.

HCIDLA worked with RealQuest, a real property search engine corporation, to obtain real property data to verify all NOD's filed. The raw data was received by HCIDLA on or about March 26, 2013. After an extensive review of the data, and cross reference against Notices of Recessions and Sale to Third Parties, HCIDLA identified approximately 177 properties for which no registration was made for year 2013, and that had not subsequently registered in 2014. The registration fee at \$155 for those 177 properties would have been \$27,435. The Ordinance requires that the beneficiary and or trustee to register with the Foreclosure Registry within 30 days of the issuance of the NOD. The ordinance further requires that HCIDLA issue a Thirty Day Notice of Non-Compliance and that only upon the expiration of the thirty days, the daily \$250.00 penalty fee commences with a limit of \$100,000. Although we can speculate what the penalty fee would be, the penalty fee only commences with the issuance of the Thirty Day Notice of Non-Compliance and in this matter, involving the 177 properties, no Notice of Non-Compliance was issued.

HCIDLA has commenced working on its first batch of non-compliant properties for year 2014. HCIDLA identified 805 properties with NODs that had failed to register for the period January 1, 2014 through May 31, 2014 and on August 20, 2014 issued a Notice of Non-Compliance (NNC). Of those 805 NNCs, 223 have been identified by staff as not required to register due to sale to a third party or the filing of a Notice of Recession. 182 properties have been registered within

the 30 days of the NNC issuance and an additional 57 properties filed late and paid a penalty fee along with their registration fee. To date, penalty fees have been received in the amount of \$293,835. A Second Notice was issued to the remaining 362 unregistered properties on October 16, 2014, of which 19 have registered as of this date. Of these, 343 properties are currently accruing a daily penalty fee of \$250.00 and as of October 22, 2014 the total estimated late fee penalty will be approximately \$2.5 million dollars (\$250.00 daily penalty x 30 days x 343 properties= \$2.5 million). HCIDLA will work to pursue all outstanding amounts.

HCIDLA is currently working on identifying the non-compliant properties for the period from June 1, 2014 through September 30, 2014. It is currently estimated that there are 820 non-compliant properties for that period. HCIDLA will review the 820 properties and determine those that are non-compliant and enforce the Ordinance by issuing an NNC to those identified as non-compliant.

### Technology Upgrade

#### **Foreclosure Registry Information System (FIMS) Enhancements**

The following FIMS enhancements are currently in progress to address a number of billing and foreclosure data processing needs. The total cost estimate for the enhancements is \$350,000. HCIDLA will request a budget adjustment in the FY 2014-15 Financial Status Report to reflect that amount. Pending Council approval of the Controller's Audit Report entitled, "Audit of the Foreclosure Registry Program" issued on June 3, 2014, to develop a GeoRegistry system, HCIDLA may report back with the plan to develop such system.

#### **Enhancements to the current FIMS – Cost: \$350,000**

Item	Description	Est Completion Date
I	Ability to generate FR bills and notices to lenders and implement invoices in the Billing Information Management System (BIMS)	12/31/2014
II	Develop web services to share foreclosure registry data with LADBS and other HCIDLA systems	12/31/2014
III	Add billing and other management report on the FR data	12/31/2014
IV	Additional features in BIMS and FIMS to allow easier management of FR invoices and properties in FR	3/30/2015
V	Develop user requirements, work flows, wireframe, systems design for the following FIMS new functions 1) Geographic Information System (GIS) – provide a GIS user interface to allow easier and more	2/4/2015

	<p>efficient manipulation of foreclosure registry property data.</p> <ol style="list-style-type: none"><li>2) Include automated workflow to collaborate among other City Departments and property servicers.</li><li>3) Develop workflow to address proactive enforcement needs.</li><li>4) Incorporate multiple data sources to provide better research capabilities on foreclosure data.</li><li>5) Provide mobile applications for inspectors and property management companies to submit inspection data and to update the status of the properties.</li><li>6) Develop business intelligence capability to provide better data visualization and analysis.</li></ol>	
--	---	--

The intent of the Foreclosure Registry Ordinance was to establish an abandoned residential property program as a mechanism to protect residential neighborhoods from becoming blighted through the lack of adequate maintenance and security of abandoned properties as a result of the foreclosure crisis. Blighted properties have a negative impact on communities with higher than normal crime rates, produce visual blight such as graffiti, litter, debris and debilitated properties that reduce property values, creating a lower tax base, and impose a drain on city resources. Property utility shut offs are one of the first signs that a property is in distress and may fall into the foreclosure process.

To protect neighborhoods from becoming blighted will require a network of departments and organizations to work collaboratively, to pool resources, and to establish innovative ways at addressing blight. The Department of Water and Power (DWP) shut off data, LAPD and LAFD calls for service, and the LADBS complaint data are all useful data sets that could be examined and used as factors to determine blighted properties and which HCIDLA and LADBS could utilize to determine those properties to target for enforcement. Conversely, the data collected by the Foreclosure Registry provides benefits to the DWP because it provides them with direct contact information for the collection of outstanding accounts which may also assist in reducing shut offs. LAPD was provided with access to the Foreclosure Registry Data and currently utilizes the data since from on or about May 2013. Both the LAPD and the LAFD would benefit from the data in their calls for service as well as their follow up and reports to owners and responsible parties of properties.

Additionally, non-profit organizations, that may provide financial resources and loan modification information, could be included in the network so that they could be connected to owners who find themselves in a difficult financial condition and possibly avoid abandonment through refinancing or loan modifications. Councilmembers and citizens alike would profit from the availability as well as their interactive participation in a network with a mission to identify and

prosecute properties that become blighted, as well as preventing others from becoming blighted, to rid our communities with the negative spillover of associated issues and increasing the value of our neighborhoods in both economic and social capital.

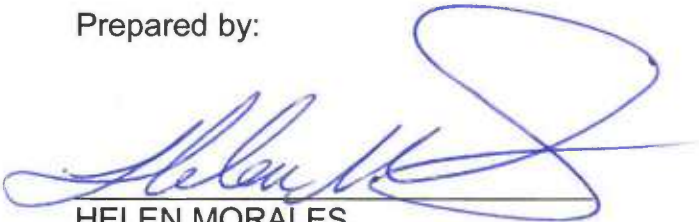
**Revenue Collected**

The Foreclosure Registry has collected \$5,225,037 in registration fees for the period from July 2010 through October 20, 2014. In addition the Foreclosure Registry currently has collected \$293,835 in penalty fees for the period from September 20, 2014 through October 21, 2014. The Ordinance would need to be amended to transfer penalty fees to the General Fund.

**Fiscal Impact Statement**

None

Prepared by:



HELEN MORALES  
Senior Housing Investigator II  
Regulatory, Compliance and Code Bureau

Reviewed by:



ROBERTO H. ALDAPE  
Assistant General Manager  
Los Angeles Housing and Community Investment Department

Approved by:



---

RUSHMORE D. CERVANTES

General Manager

Los Angeles Housing and Community Investment Department