

THE COMMUNITY REDEVELOPMENT AGENCY
OF THE CITY OF LOS ANGELES

LOAN MONITORING
ADMINISTRATIVE PROCEDURES

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Agency Board 7/21/05
City Council 11/15/05

INTRODUCTION

Since its creation in 1948, The Community Redevelopment Agency of the City of Los Angeles has been the City's partner in housing, commercial, neighborhood and economic development. The Agency primarily operates in 34 redevelopment areas, geographically designated areas that meet certain criteria defined in California Redevelopment Law. Redevelopment areas are created for the following purposes:

- To foster job creation and establish an environment that will attract and sustain private investment.
- To maintain and increase the supply of housing for low- and moderate-income households.
- To renovate, remove or replace deteriorated or dilapidated structures.

One of the main tools that the Agency utilizes to accomplish these goals is providing financial assistance to private redevelopers and owner participants. This financial assistance is typically in the form of loans or grants, consistent with the CRA/LA Multifamily Housing Loan Underwriting Administrative Procedures and similar procedures for commercial and single-family residential loans, as they may be from time to time amended. At the end of its 2003/2004 fiscal year, the Agency held a substantial loan portfolio of over 1,100 loans with a principal balance of nearly \$500 million.

During 2004, the Office of the City Controller of the City of Los Angeles conducted three audits of the Agency including two that dealt with different aspects of the Agency loan portfolio. These audits found, among other things, that the Agency lacked comprehensive policies and procedures for monitoring this substantial portfolio.

The lack of comprehensive written policies and procedures has caused confusion with Agency staff members and borrowers regarding the day-to-day management of the portfolio and how to deal with various issues that arise over the term of an Agency loan or grant. As a result, this administrative procedures manual has been created not just to respond to the audits of the City Controller but also to provide a framework for staff and borrowers to follow for the creation of new loans and the modification of existing loans.

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I. LENDING PRACTICES

A. Regional Goals & Underwriting Guidelines

The Agency provides financial assistance to businesses and others by offering grant and loan programs in many of its project areas. These programs are established on a project area by project area basis depending upon available funding and specific needs within each respective community.

As noted in the Introduction of this manual, the Agency provides loans and grants to individuals and developers to carry out its mission. Regional Administrators and Project Managers shall, with the necessary input from the respective technical staff, design grant and loan programs needed to meet the redevelopment goals of their communities and shall secure the necessary Agency Board and City Council approval of these programs. Project Managers shall be responsible for including adequate and measurable Program Guidelines to allow the loans to be properly monitored.

The Regional Area underwriting staff is responsible for preparing all loan documents and ensuring that these documents are properly authorized, executed, and recorded as needed. The Regional Area is responsible for loan underwriting, including revenue projections, determination of Borrower creditworthiness, review of title insurance policies, recordation of loan documents and other aspects of the loan closing process. In the event a loan becomes delinquent, the Regional Area shall be responsible for negotiating with the Borrower regarding any potential remedy or cure, and notifying Asset Management as to the status of negotiations. If the remedy results in an amendment to a loan, the Regional Area shall prepare all necessary documents in the same manner as for a new loan. The Regional Area also has the primary responsibility for determining if a Borrower is meeting its non-financial requirements (e.g., property maintenance) as set forth in each loan agreement.

Direct financial assistance from the Agency in the form of loans or grants shall be consistent with the CRA/LA Multifamily Housing Loan Underwriting Administrative Procedures and similar procedures for commercial and single-family residential loans, as they may be from time to time amended. Collectively these “underwriting guidelines” provide the framework for the Agency to make sound performing loans that optimize the public benefit for the use of public funds.

B. Agency Board of Commissioners

As a public Agency, CRA/LA is governed by State regulations under the direction of the Mayor and City Council of Los Angeles. Its work is overseen and managed by a seven member Board of Commissioners, appointed by the Mayor and confirmed by the City Council. The Board of Commissioners appoints a Chief Executive Officer, who oversees the professional staff and the day-to-day operations of the Agency.

The Agency Board approves new loan programs and program guidelines. Specific Board approval is also required for new loans above certain dollar thresholds and loans that do not meet established program guidelines. In addition, the Agency Board approves the creation and modification of Agency policies.

C. City Council Oversight

On February 26, 1991, the City Council of the City of Los Angeles adopted an Oversight Ordinance that extended its powers of review and approval of CRA/LA activities. The Agency and the City entered into a Cooperation Agreement on April 13, 1991 to implement the ordinance. This agreement requires final City Council approval of specific items approved by the Agency Board including: loans, grants and loan amendments above a certain dollar threshold; delegations of authority to Agency staff; and, policies of the Agency including rules or guidelines that form the basis of subsequent Agency actions.

Furthermore, actions taken by the Agency Board are subject to Council review under the provisions of a “10-day rule”. The “10-day rule” allows any two Councilmembers or the President of the Council to request, within 10 days of notification, that any action considered by the Board, including those that would otherwise not require Council action pursuant to the Oversight Ordinance, be transmitted to the Council for review and final approval.

D. Loan Committee

In January 2005, the Agency created a Loan Committee. The loan committee has five members comprised of: the Agency’s Finance Director, the Special Assistant to the CEO, one of the Agency’s Regional Administrators, an outside representative from the City’s Community Development Department, and an outside representative from the Los Angeles Housing Department. The Loan Committee acts in an advisory capacity in reviewing new loans above a certain threshold before they are presented to the Agency Board. In addition, the Loan Committee shall have authority relating to loan restructuring, forbearance agreements, foreclosure recommendations and loan write-offs as outlined in these administrative procedures.

E. Asset Management Section

The Asset Management Section of the Business Operations and Asset Management Department is responsible for monitoring the Agency Loan Portfolio including non-financial terms and conditions as specified in these administrative procedures. This responsibility includes maintaining the computerized Loans Receivable System, contracting with outside loan servicing consultants as well as monitoring and reporting on loans in default. Asset Management is responsible for the issuance of all formal Notices of Default relating to Agency Loans. Under the direction of the area Regional Administrator, the regional area staff, the Capital Finance Section or the Director of Housing is responsible for underwriting and preparing documents

relating to loan restructurings, subordination agreements and other loan modifications; however, these staff members rely upon Asset Management to provide updated loan status information. Asset Management is responsible for ensuring that the procedures contained in this manual are properly followed and adequately documented.

II. LOAN MONITORING PRACTICES

A. Types of Loans

Amortized (Installment) Loan. This category of loan includes any loan that has fixed periodic payments. This includes loans requiring monthly fully amortizing payments, interest only loans with balloon payments, and loans requiring single annual payments that may cover all or only a portion of the annual interest accrual.

Conditional Grant. Also known as a “Forgivable Loan”, “Conditional Loan”, “Service Repayment Loan” or a “Disappearing Loan”, this is a type of financial assistance whose principal balance and interest, if any, is forgiven at the end of its term, or a portion of which is forgiven annually over its term, if certain conditions are met. Conditional Grants are typically categorized into one of the following groups:

- **Service Repayment:** The loan is forgiven when the Borrower submits an Annual Statement certifying that the required services have been performed and the Project Manager authorizes forgiveness.
- **Maintenance:** The loan is forgiven when the Borrower meets the specific Maintenance Plan (e.g., remove all graffiti in the defined Project) during the term of the loan and the Project Manager authorizes forgiveness.
- **Other:** The loan is forgiven when the Borrower complies with all provisions of the Agency Loan Agreement and the Project Manager documents compliance and authorizes forgiveness.

Deferred Loan. A loan with no periodic payments; the principal balance being recovered at the end of a designated term or when the title to collateral property is sold, transferred, encumbered, or in accordance with special deferred repayment provisions in the loan agreement. Examples of deferred loans are Predevelopment Loans and Silent Second Homeownership Loans.

Residual Receipt Loan. A loan without a specific payment amount where the Agency receives all or a portion of a project’s residual cash flow, if any, after deducting reasonable operating costs, debt service on senior debt and reasonable reserves as defined in the loan agreement. Borrowers are required to submit annual financial statements, usually audited by an independent certified public accountant.

B. Amortized (Installment) Loan Monitoring

Notes that provide for regular installment payments shall be continuously monitored through the use of *monthly statements* and the delinquent letter procedure. A breach in the agreement to pay may be treated as either *minor* or *material* and will trigger appropriate resolution procedures.

- (1) *Monthly Statements.* The Asset Management Section is responsible for seeing that monthly statements or payment coupon books are prepared and mailed for each account. An outside firm accountable to the Agency may perform this requirement. Monthly statements or payment coupon book will indicate the next installment amount, the past due amount, and the next payment due date. The statement or payment coupon book shall also indicate the amount and date of the last payment; the amount applied to principal and/or interest, the total interest and principal paid to date, and the principal balance.
- (2) *Loan Service Monitoring.* The Asset Management Section is responsible for monitoring the payments on all Agency loans. Outside loan service contractors shall provide monthly reports that summarize all loan activity. The contractors will be held accountable to the guidelines in this Procedure. The Asset Management Section shall ensure that the contractors' records are reconciled on a regular basis with the Agency's Loans Receivable System.
- (3) *Breach of an Amortized (Installment) Loan.* The Asset Management Section monitors the loan agreements for payment compliance. When a material breach is identified, the Borrower will be notified by the Asset Management Section, with a copy to the Regional Area, in writing and given a reasonable time to bring the account up to date.
 - a. *Delinquent Letters.* Notifications, in writing, sent to borrowers that do not make their scheduled payments at intervals of fifteen (15), thirty (30) and sixty (60) days past the payment due date (unless otherwise specified in the Loan Agreement). Upon issuance of a sixty-day delinquent letter the borrower will be notified that within an additional thirty (30) days a Notice of Default may be issued. The Asset Management Section shall approve the form and format of notification letters sent by its Loan Servicing Consultant to ensure that delinquent borrowers are notified of the consequences of breaching their loan agreement. Asset Management shall also ensure that copies of any formal Notices of Default are provided to the respective Regional Administrator.
 - b. *Failure of a Borrower to Meet Payment Obligations.* Repeated failures by a Borrower to make required payment obligations during the 90-day good faith negotiation period shall result in one or more of the following actions subject to terms and conditions of the Loan Agreement:
 - 1) Notification to credit reporting agencies that the borrower is in default.
 - 2) Extend good faith negotiation period.
 - 3) Entering into a temporary Forbearance Agreement.The Regional Area is notified of the default and shall attempt to resolve the breach through good faith negotiations with the Borrower. If good faith negotiations fail to resolve the breach, the matter is referred to Asset Management for action pursuant to Section VI of these administrative procedures.

C. Conditional Grant Monitoring

The Agency's Conditional Grant Program provides financial assistance to individuals, businesses, or non-profit entities where the principal balance and/or interest is forgiven at the end of its term, or a portion of which is forgiven annually over its term, if certain conditions are met. The Regional Area shall market the Conditional Grant Program, take applications, underwrite the grants and secure the necessary approvals.

- (1) Annual Statements. The Regional Area will ensure that all Conditional Grants shall include a provision requiring the Borrower to submit an Annual Statement. The Annual Statement will include a confirmation that all loan conditions or maintenance requirements have been met.
- (2) Loan Setup. Asset Management shall set up the conditional grant in the Loans Receivable System (LRS). Should the conditional grant include an annual forgiveness, Asset Management shall enter the Annual Statement Date or Annual Forgiveness Date in the LRS.
- (3) Borrower Notices. Asset Management will ensure that the following notices are sent to the Borrower:
 - a. *30 Days Prior to the Annual Statement Date*: A reminder that the Annual Statement is coming due.
 - b. *Delinquent Letters*: Notifications, in writing, will be sent to the borrower at intervals of 30 and 60 days after the statement due date notifying the borrower that the statement is past due and the loan is considered in Technical Default.
 - c. *Material Event of Default*. If an Annual Statement becomes 90 days past due the late statement will be considered a *Material Event of Default*. The borrower shall be notified in writing that the loan is in *Material Default*. The notice shall state that the loan will be identified in the Agency Default Report and that any future recommendations made to the Agency Board regarding the conditional grant or any other loan or grant or discretionary action relating to the borrower, or affiliate of the borrower, will include reference to the *Material Default*. The notice shall also indicate that the *Material Event of Default* may result in the recordation of a Notice of Default.
- (4) Annual Statement Processing. Upon receipt of the Annual Statement, Asset Management or the Loan Servicing Consultant shall forward a copy to the Project Manager for review. The statement will be attached to the Conditional Grant Write-Off Authorization ("Authorization Form") (a copy of the form is attached as Exhibit B).
 - a. The Regional Administrator or designee is responsible for reviewing the Annual Statement to confirm the required activities have been completed and for inspecting the project site as needed to make an informed determination as to whether the Borrower is in compliance with the terms of the Loan Agreement. The review should be completed within 30 days of receipt of the Authorization Form.

- 1) *Borrower in Compliance*: Upon completion of the review, if the Borrower is in compliance the Regional Administrator or designee will sign the Authorization Form and return it to Asset Management. The Asset Management staff shall send a notice to the Borrower that the non-financial obligation has been met within 30 days of receiving the approved Authorization Form.
 - 2) *Borrower not in Compliance*: Annual forgiveness of the loan balance will not be granted. This may result in this amount being due and payable at the end of the loan term. The Regional Area shall notify Asset Management of the status of the loan within the same 30-day period of the receipt of the Authorization Form, indicating the reasons for determining non-compliance.
 - b. The Asset Management Section is responsible for updating the Loans Receivable System to reflect the reduction of the loan balance and for notifying the Loan Servicing Consultant of the updated loan balance.
 - c. Commencing in October 2005, the Asset Management Section shall send periodic reports to Regional Administrators listing authorization forms sent to Project Managers that remain outstanding after the 30-day review period.
- (5) *Default Processing*. Should the Regional Administrator or designee determine that the borrower is not in compliance, Asset Management shall notify the borrower and the Regional Area that the loan is now in default. The Regional Area shall contact the Borrower and determine what corrective action is needed to cure the default. If the Borrower fails to make a good faith effort to resolve the deficiencies, the Regional Area shall instruct Asset Management to issue all necessary notices (e.g., issue and record a Notice of Default), pursuant to the terms of the grant agreement.

D. Deferred Loan Monitoring

The Asset Management Section is responsible for maintaining a current accounting of all outstanding Agency loans with deferred payment provisions. Asset Management shall ensure that an Annual Statement will be mailed to each deferred account holder. This letter will include the loan balance and a summary of the terms and conditions of the loan. This letter will also indicate that the borrower is required to notify the department by certified mail of any change of residence or status of the property during the next calendar year.

Breach of a Deferred Note. In the event of a failure of a Borrower to meet an obligation of a Deferred Note, the Asset Management Section shall follow the procedures outlined below:

- (1) *Technical Default*. A borrower who does not comply with a condition of their loan other than a due on sale or refinancing clause is considered in technical default. Notifications, in writing, will be sent to the borrower in technical default at intervals of 30 and 60 days after the event of default. A technical default is not considered a *Material Event of*

Default and reported on the Agency default report until the borrower fails to comply after the 60-day notice.

- (2) *Material Event of Default.* A borrower who does not comply after the 60-day notification of a technical default will be considered in *Material Default*. A notification shall be sent to the borrower indicating that the loan will be identified in the Agency Default Report and that any future recommendations made to the Agency Board regarding this loan or any other loan or discretionary action relating to the borrower, or affiliate of the borrower, will include reference to the *Material Default*. The notice shall also indicate that the *Material Event of Default* may result in the recordation of a Notice of Default.
- (3) *Default of "Due on Sale" of "Consent to Transfer" Provisions.* Any borrower who transfers without prior approval of the Agency, through Quitclaim or any other method, a property secured by a deferred note containing a due on sale or requirement of consent to transfer clause shall be considered, immediately, in *Material Default* of their loan. The Asset Management Section shall immediately issue a Notice of Intent (NOI) informing the borrower that the Agency may record a Notice of Default (NOD) if the loan is not paid in full in 15 days. In addition, the borrower may be notified of other Agency remedies under the Loan Documents or Covenants. If the borrower does not respond to the NOI, the Asset Management Section, with the approval of the Regional Administrator for the region, shall issue a NOD.

E. Residual Receipt Loan Monitoring

The Asset Management Section shall monitor all residual receipts – those notes that have terms providing for the repayment of principal and interest from the project's cash flow. The Regional Area, in the preparation of the note shall ensure that the promissory note sets forth when and under what circumstances repayments will be due. Note terms and conditions must be consistent with the appropriate underwriting guidelines for the type of project being funded including: a detailed definition of allowable operating expenses, a definition of residual receipts, reserve requirements and the percentage return on investment allowed to the borrower (if any). In general, the borrower will not be in breach of the promise to repay if the project does not generate sufficient (surplus) cash.

- (1) *Certificate of Completion.* Residual receipt loans are typically construction gap loans that are made before construction of the project is complete and the project is placed in operation. The Regional Area staff members who monitor the construction of the project are responsible for notifying Asset Management when construction of a project is complete by forwarding to Asset Management a copy of the recorded Certificate of Completion or similar document. Beginning in October 2005, Asset Management shall send quarterly reports to the Regional Areas of residual receipt loans that are shown as under construction in the Loans Receivable System. Upon receiving documentation that a project has been placed in service, Asset Management shall notify the Contracts and Purchasing Department of the change in status so that Contracts and Purchasing may

coordinate any post-construction Living Wage requirements with the City of Los Angeles.

- (2) *Annual Operating Statements.* Upon recording of the Certificate of Completion, the Asset Management Section shall ensure that an Annual Statement is submitted to each residual receipts account borrower within the timeframe specified in the Loan Agreement or by the end of March if no timeframe is specified. This statement will include the loan balance, a statement of the terms and conditions of the loan and a request for payment, depending on the specific terms and conditions of the note. The statement will also request copies of the Borrower's most recent Annual Operating Statement including income and expenses for the year. Where required in the Loan Agreement, these statements are to be prepared by a Certified Public Accountant in accordance with generally accepted accounting principles (GAAP) and certified by the borrower as being correct.
- (3) *Invoicing for Residual Receipts due.* The Asset Management Section or the Loan Servicing Consultant shall review all annual financial statements to determine whether a residual receipt payment is due to the Agency¹. If it is determined that residual receipts are due to the Agency, an Invoice for the payment due shall be sent to the borrower. The Invoice shall be properly recorded in the Agency's Accounts Receivable System. The Asset Management Section is responsible for maintaining a schedule of outstanding receivables.
- (4) *Breach of a Residual Receipts Note.* In the event of a failure of a Borrower to meet the terms and conditions of a *Residual Receipts Note*, the Asset Management Section shall follow the procedures outlined below.
 - a. *Technical Default – Failure to Submit Financial Statements.* A borrower who does not submit an annual financial statement in the timeframe provided in the loan documents is considered in technical default. Nevertheless, the technical default is not considered a *Material Event of Default* and reported on the Agency default report until the statement is 90 days past due. Notices shall be sent to a borrower who is in Technical Default as indicated below:
 - 1) *Delinquent Letters.* Notifications, in writing, will be sent to the borrower at intervals of 30 and 60 days after the statement due date notifying the borrower that the statement is past due and the loan is considered in Technical Default. The notice shall indicate that the borrower may submit a request for an extension². The request for an extension must be in writing, must state a reason for the delay and must state the date by which

¹ Pursuant to the Multi-Family Housing Loan Underwriting Administrative Procedures, annual loan monitoring is the responsibility of the Regional Administrator or delegate. These Loan Monitoring Administrative Procedures assume that the Asset Management Section is the RA delegate for reviewing financial statements for multi-family residential loans.

² In many older Loan Agreements borrowers are required to submit audited statements within 60 day of the end of their fiscal year. This timeframe may not be realistic for larger projects and granting of extensions is commonplace. In addition, many borrowers are able to obtain significant costs savings by waiting until after the busy tax season to have their audits completed. In these cases extensions may be granted to keep operating expenses down.

- the late statement will be submitted. The extension may be granted at the sole discretion of the Director of Business Operations & Asset Management.
- 2) *Extension Letter*. If an extension is granted for the submittal of a financial statement, the borrower shall be notified in writing of the new statement due date and that the loan will be considered in *Material Default* if the statement is not received by the new date.
 - 3) *Material Event of Default*. If a financial statement becomes 90 days past due or if a borrower who has been granted an extension does not submit the required statement by the extension date, the late statement will be considered a *Material Event of Default*. The borrower shall be notified in writing that the loan is in *Material Default*. The notice shall state that the loan will be identified in the Agency Default Report and that any future recommendations made to the Agency Board regarding this loan or any other loan or discretionary action relating to the borrower, or affiliate of the borrower, will include reference to the *Material Default*. The notice shall serve as a Notice of Intent (NOI) and indicate that the *Material Event of Default* may result in the recordation of a Notice of Default (NOD).
- b. *Monetary Default*. If the review of the Annual Statement resulted in the issuance of an Invoice for residual receipts due the Agency, the loan is in monetary default if the invoice is not paid by the due date. Monetary defaults will be reported on the Agency default reports.
- 1) *Delinquent Letters*. Notifications, in writing, will be sent to borrowers at intervals of thirty (30) and sixty (60) days after the invoice due date (unless otherwise specified in the Loan Agreement). Upon issuance of a sixty-day delinquent letter the borrower will be notified that within an additional thirty (30) days a NOD may be recorded.
 - 2) *Disputed Residual Receipt Calculations*. If a borrower does not agree with the calculation of residual receipts accompanying the Invoice the borrower may submit a written notice disputing the calculation. The notice shall include the borrower's revised residual receipt calculation and documentation backing-up the revised calculation. The loan is still considered in monetary default while the calculation is under review; however the Agency report on loans in default will indicate that the calculation is in dispute.
 - 3) The Asset Management Section shall review the calculation and may revise or cancel the Invoice if they agree with the revised calculation. If the Asset Management Section does not agree with the revised calculation, the calculation shall be referred to the Loan Committee.
 - 4) If the Loan Committee agrees with the borrower that the residual receipts amount included on the Invoice is incorrect, the Asset Management Section shall revise or cancel the Invoice accordingly and immediately notify the loan-servicing consultant.

- 5) If the Loan Committee agrees with the Asset Management Section that the residual receipts amount included on the Invoice is correct, a letter shall be sent to the borrower indicating that the review of the calculation did not result in any change in the amount due and that the Invoice must be paid immediately or a NOD may be issued.

F. Procedures Subject to Existing Loan Agreement Provisions

The application of these procedures shall be subject to the terms and conditions of the Loan Agreements. If there is a conflict between the Loan Agreement and these procedures, the applicable Loan Agreement provisions will prevail.

III. ASSUMPTION PROCEDURES

A. General

When an Agency loan is approved, the approval is based, in part, upon the qualifications of the borrower. Those qualifications include the borrowers credit history, financial strength and capacity to construct and operate the project that is the subject of the loan. For this reason Agency Loan Agreements contain provisions against a change in ownership of a project or a change in a controlling interest in a borrower without the prior written approval of the Agency.

While the specific provisions prohibiting a transfer of ownership may differ between individual Loan Agreements, as a general rule a change in ownership without the prior written consent of the Agency is considered an event of default that triggers the remedies available to the Agency in the Loan Agreement.

For a variety of reasons a borrower may wish to sell a project or transfer all or part of its interest in a project to another party. The Agency will review requests of this nature as outlined below. If the borrower is a partnership, this procedure applies to any change in the partnership entity.

B. Evaluation of Assumption Requests

To evaluate an assumption request, the existing borrower must provide the following:

- A written request, signed by the borrower, explaining the circumstances of the assumption and stating why the assumption should be granted.
- Mortgage statements for other liens recorded against the property and written approvals from other lenders, if any, along with copies of the Promissory Notes and Deeds of Trust for all other mortgages.
- An explanation for any existing delinquencies on the Agency loan. In the event the owner of an investment property is delinquent in the provision of financial statements, property operating expense statements from a management company are required to evaluate the request. In extreme circumstances where the borrower is non-responsive or management of the project is in disarray, this requirement may be waived if it is in the best interest of the Agency.

In addition, the party wanting to assume a single-family residential or 1-4 unit owner-occupied residential loan must provide the following:

- Copy of two years federal income tax returns.
- Signed and completed loan application form.
- Copy of sales agreement or other agreements pertinent to the transaction including but not limited to a Preliminary Closing Statement.
- A Preliminary Title Report for the property.

- A signed Credit Report authorization form.
- All required Property and General Liability Certificates and Endorsements.
- A \$50 document processing fee must be paid; however, if the Agency loan is in default and the transfer of ownership is in the best interest of the Agency, this fee may be waived.

The party wanting to assume a multi-family residential loan or a commercial loan must provide the following:

- All appropriate documentation (tax returns, Financing Questionnaire, Credit Report Authorization, etc.) required under the corresponding underwriting guidelines for the type of project being funded.
- Completed property management plan for multi-family residential loans (not required for a new limited partner that will not be taking an active role in the management of the project).
- Statement of qualifications and prior property management experience (not required for a new limited partner that will not be taking an active role in the management of the project).
- Copy of sales agreement or other agreements pertinent to the transaction including but not limited to Preliminary Closing Statement and Escrow Instructions.
- A Preliminary Title Report for the property (not required for changes in an existing partnership entity).
- All required Property and General Liability Certificates and Endorsements.
- A \$50 document processing fee must be paid; however, if the Agency loan is in default and the transfer of ownership is in the best interest of the Agency, this fee may be waived.

The assumption of Agency Homeownership Loans (primarily condominium units and first-time homebuyers) will be reviewed and analyzed by the Asset Management Section. The review and analysis of the materials obtained from the existing borrower and from the party requesting the assumption of the loan for all other loans shall be done by the Regional Area underwriting staff. At the request of the Regional Administrator and with the approval of the Manager of Capital Finance or the Director of Housing, either the staff of the Capital Finance Unit or the Director of Housing may do the review and analysis. The Asset Management Section must verify the status of the existing loan. If the loan that is being assumed is in default, the staff member doing the review and analysis shall keep the Asset Management Section apprised of the status of the assumption.

If the assumption does not alter the Agency's secured interest in the property, an appraisal is not required. Other than the need for an appraisal, the same underwriting guidelines that apply to a new loan shall also apply to a loan assumption. However, in the event that the existing Agency loan is in default and approving the assumption will cure the default, staff may, with proper documentation, make exceptions to these guidelines.

C. Approval of Assumption Requests

Assumption requests evaluated under section B above, must be approved as follows:

- (1) Assumption of a single-family residential loan or 1-4 unit owner-occupied residential loan where there is no deviation from the guidelines used to approve a new loan of the same type must be approved by the Regional Administrator.
- (2) Assumption of a single-family residential loan or 1-4 unit owner-occupied residential loan where exceptions are made to the applicable underwriting guidelines the assumption must be approved by the Regional Administrator with review and concurrence by the Loan Committee.
- (3) If the assumption relates to the change in a limited partnership interest that does not affect the day-to-day operation of the project, the assumption must be approved by the Regional Administrator and the Chief Financial Officer.
- (4) If the assumption relates to the change in a general partner or a managing partner of an existing partnership, or it relates to the transfer of ownership to another developer (for profit or non-profit), individual or corporate entity the assumption must be approved by the Regional Administrator, and the Chief Financial Officer with the concurrence of the Loan Committee.
- (5) The assumption of multi-family residential loans or commercial loans where exceptions must be made to the applicable underwriting guidelines that apply to a new loan of the same type must be approved by the Agency Board. Board consideration of exceptions must include documentation of the following:
 - a. New borrower's capacity to own and operate the project.
 - b. Protection of any covenants recorded against the property.
 - c. Potential disruption of any tenants.
- (6) Assignment, Assumption and Approval Agreements, or similar documents that serve the same purpose, must be approved as to form by the Office of the City Attorney.

IV. SUBORDINATION PROCEDURES

A. General

Most Agency loans are secured Real Estate loans. The security for these loans is in the form of a Deed of Trust, a legal document recorded with the Office of the County Recorder, that places a lien on a property. Property owners (borrowers) typically borrow funds from more than one financial institution resulting in multiple loans and multiple deeds of trust recorded against the property. In the event of a foreclosure, the deeds of trust securing the loans have different priorities on the underlying security. As a general rule, the oldest (most senior) loan has the most security (a “first” trust deed position). A “subordinate” loan is one that has a lower priority in the event of a foreclosure and is generally considered a more risky loan.

Agency loans may have a senior or subordinate position at the time that they are approved and funded. A subordination agreement is an agreement that allows the Borrower to obtain a new loan with a trust deed position that is superior to the Agency’s. Subordinations are generally requested in cases where the borrower wants to refinance their debt to lower the interest rate or monthly payment on their loan or loans, to consolidate debts, or to payoff a balloon loan. They are also required, in certain instances, by other funding sources as a condition of funding their portion of a loan.

B. Evaluation of Subordination Requests

The Agency will not subordinate its lien if its trust deed occupies a priority position without approval of the Board of Commissions except as outlined below:

- The Agency may subordinate to a lender that intends to refinance a loan or loans already in a superior lien position to the Agency. The new loan may include the cost of reasonable points and fees (usually limited to 2-3% of the new loan).
- For medical hardships/emergencies in owner occupied single-family residences or 1-4 unit owner-occupied buildings where the combined loan-to-value ratio for all loans (including the Agency loan) after the subordination is no more than 10 percent (10%) greater than the combined loan-to-value ratio (including the Agency loan) before the subordination. The loan-to-value ratio may not exceed 100% under any circumstances without approval by the Agency Board.
- For emergency building/home repairs for “health or safety” reasons where the combined loan-to-value ratio for all loans (including the Agency loan) after the subordination is no more than 10 percent (10%) greater than the combined loan-to-value ratio (including the Agency loan) before the subordination. The loan-to-value ratio may not exceed 100% under any circumstances without approval by the Agency Board.

To evaluate a subordination request, the borrower must provide the following:

- The request must be in writing.
- Loan costs and fees must be supported by an estimate from the lender or escrow company.
- Medical hardships must be documented in writing by a licensed health care professional.
- Emergency building/home repairs must be supported by a written cost estimate from a Licensed and insured contractor.
- The borrower's property must be free and clear of any unpaid taxes, liens or judgments.
- The Agency loan is current or will be brought current prior to the subordination.
- The pay-off of the existing loans must be done through an Escrow account and a Preliminary Closing Statement shall be provided to the Agency.
- The borrower must pay a \$50 document processing fee; however, the fee shall be waived for single-family residences and 1-4 unit owner-occupied residential projects.

The documentation and evaluation of the request must be made by the underwriting staff for the respective Regional Area or by the staff of the Capital Finance Section.

C. Approval of Subordination Requests

Subordination requests evaluated under section B above, must be approved as follows:

- (1) With proper documentation, requests made to refinance existing debt (including the cost of reasonable points and fees) must be approved by the Director of Business Operations & Asset Management.
- (2) With proper documentation requests made for medical hardships/emergencies and emergency building/home repairs must be approved by the respective Regional Administrator. Concurrence by the Loan Committee is required for emergency subordinations resulting in \$100,000 or more of additional debt.
- (3) The Agency Board must approve all other subordination requests after review by the Loan Committee. Board consideration of exceptions must include documentation of the following:
 - a. The loan-to-value ratio of the Agency debt and senior debt adequately protects the Agency investment.
 - b. The additional debt does not place Agency covenants at risk.
- (4) All Subordination Agreements shall be reviewed as to form by the Office of the City Attorney and must provide a minimum of 60 days notice to the Agency in the event that the borrower defaults on the senior lender's loan.

Regional Area underwriting staff members are required to document the subordination request in a manner similar to a new loan request.

D. Subordination of Housing Covenants

If a loan for a housing project has been funded with Housing Trust Funds, an Agreement

Containing Covenants Affecting Real Property (“Covenant”) will be recorded against the property in addition to the Deed of Trust securing the Agency Loan. The Board must approve a subordination of the Agency’s Covenants. The following conditions must be met before the Board will consider such a request:

- (1) The lender must make the request in writing and must indicate that the loan would not be made without the subordination of the Covenants.
- (2) A determination has been made that an economically feasible alternative method of financing the project on substantially comparable terms and conditions is not available without subordination of the Covenants.
- (3) The lender agrees to a Subordination Agreement that provides the Agency with notice and cure provisions as required by Redevelopment Law and which reasonably protect the Agency’s investment in the event the borrower defaults on the lender’s loan.

V. LOAN RESTRUCTURING PROCEDURES

A. General

Agency loans are initially underwritten with the following goals in mind: 1) meeting the Agency's redevelopment goals; 2) protecting the Agency's investment; 3) leveraging the public funds to the fullest extent feasible; and 4) providing a reasonable return to the Agency. The terms of a loan reflect these goals and are not typically modified over the term of the loan. Nevertheless, changes to the underlying economics of a project or to the financial condition of a borrower occur which may require the restructuring of the terms and conditions of an Agency loan.

Most Loan Agreements provide language that allow for minor changes to be made administratively. Temporary modifications to repayment terms should be handled through the execution of Forbearance Agreements (see Section VI below) and do not require modifying the underlying loan documents. Significant changes generally require the same level of approval required by the original loan.

B. Evaluation of Loan Restructuring Requests

The review and analysis of a loan restructuring request shall be conducted by the Regional Area underwriting staff or, at the request of the Regional Administrator with the approval of the Manager of Capital Finance, by the staff of the Capital Finance Unit. In the event that the restructuring of the Agency loan does not affect the secured position of the Agency loan in relation to other lenders, an appraisal is not required for the evaluation of the restructuring request. Other than the need for an appraisal, the same underwriting guidelines that apply to a new loan shall also be used to evaluate a loan restructuring.

However, in the event that the loan being restructured is in material default and the restructuring will cure the material default staff may, with proper documentation, make exceptions to the new loan guidelines. The Asset Management Section must verify the status of the existing loan. If the loan that is being restructured is in default, the staff member conducting the review and analysis shall keep the Asset Management Section apprised of the status of the restructuring.

C. Approval of Loan Restructuring

The restructuring of an Agency loan may be approved as follows:

- (1) If the terms and conditions of the restructured loan fall within the guidelines of an existing loan program the restructured loan may be approved under the guidelines of that program.

- (2) If the restructuring of the loan increases the loan amount within the existing Agency delegations of authority (see Administrative Policy and Procedure AD 101 “Delegation of Authority”), the loan may be approved within that delegation.
- (3) Modifications that require new loan documents but do not require additional Agency funds and do not modify the interest rate or loan repayment type may be approved as follows:
 - a. Regional Administrator
 - b. Loan Committee (concurrence)
 - c. Chief Financial Officer

The Agency Board must approve all other restructured loans after review by the Loan Committee. The borrower for any loan modification must pay a \$50 document processing fee.

VI. FORBEARANCE/FORECLOSURE PROCEDURES

A. General

When a borrower falls behind on payments on an Agency loan or is technically in default of one or more of the non-financial provisions of their Agency loan, the Agency shall negotiate with the borrower to bring the loan current. The specific notices and negotiating steps, which depend on the type of loan and the seriousness of the default, are outlined in Section II of these administrative procedures. The general steps that are followed are:

- (1) Delinquent Notices. Formal notices letting the borrower know that the loan is delinquent.
- (2) Notice of Intent (NOI). This is sometimes referred to as a *preliminary notice of default*. The NOI puts the borrower on notice that if the loan default is not cured a notice of default will be issued.
- (3) Notice of Default (NOD). A NOD shall be recorded with the County Recorder's Office for loans secured by a Deed of Trust. The recording of the NOD provides for a 90-day period during which the borrower will be given the opportunity to enter into good faith negotiations to resolve any difficulties they may have in meeting their obligation to the Agency or to bring the loan current.
- (4) Notice of Trustee's Sale. A recorded, published, notice that sets the date of the Trustee's Sale (foreclosure sale). The notice shall be published at least 21 days before the scheduled sale date.
- (5) Trustee's Sale. A public auction of the property with the property being sold to the highest bidder.

Not all delinquent or defaulted loans lead to foreclosure. If the borrower is suffering from temporary financial hardship or simply needs additional time to cure the default, the Agency may enter into a forbearance agreement as an interim solution to resolving the default. Forbearance agreements are discussed in more detail in Section C below.

Furthermore, the Agency is not compelled to foreclose on a property. The Agency must evaluate the circumstances of each loan before making a decision on whether foreclosing is likely to result in a return on the Agency's investment or otherwise is in the best interest of the Agency. The due diligence evaluation of the project may conclude that foreclosing on the property will expose the Agency to greater risks or liabilities than are justified by taking ownership.

Even the recordation of a NOD or a Notice of Trustee's Sale does not necessarily mean that the Agency will foreclose on the property. The NOD begins the formal foreclosure process and puts the Agency in a position to foreclose should the borrower become delinquent on another lender's loan or fall behind in its payments to vendors resulting in the recording of mechanic's liens. Issuing a NOD also lets the borrower know that the Agency is serious in enforcing its rights and remedies under the loan documents.

B. Foreclosure Evaluation

Prior to the issuance of an Agency NOD (whenever feasible) or immediately upon notification of a NOD by a senior lender where the Agency holds a subordinate loan, Agency staff shall evaluate the feasibility of the Agency taking the property through foreclosure. If the Agency loan is a subordinate loan and the senior lender has not yet issued a NOD but staff is concerned that the issuance of a senior lender NOD is imminent, or if there are concerns regarding the condition of the property, this evaluation may take place during the 90-day negotiating period after issuance of a NOD. The evaluation must be completed before recording a Notice of Trustee's sale.

The evaluation shall take into account the following considerations (a sample Foreclosure Analysis format is included as Exhibit C):

- An evaluation of all liens recorded against the property (senior loans, taxes, etc.) to determine lien status and seniority and to estimate the cost to the Agency of proceeding with foreclosure. This step may require the ordering of a title report.
- An estimate of the fair market value of the property. This step may require ordering an appraisal.
- An evaluation of the capital assessment needs of the property and cost of immediate repairs. This step may require a property inspection of the property by the Regional Area construction staff.
- If the property is a rental property, an analysis of the net operating profit or loss must be conducted to determine any operating subsidies required during the anticipated Agency holding period.
- An assessment of the current tenants of a rental property to determine whether any relocation is needed and the cost of any needed relocation.
- An evaluation of any Agency Covenants recorded against the property.
- A plan for disposition of the property with a schedule for implementing the plan and identification of those responsible for its implementation.

If an outside loan-servicing consultant services the loan, the loan-servicing consultant may conduct the foreclosure evaluation. If the loan is not serviced by an outside loan servicer or the loan servicer is unable to complete the analysis in a timely manner, the underwriting staff of the Regional Area shall do the evaluation. At the request of the Regional Administrator and with the approval of the Manager of Capital Finance or Director of Housing, the staff of the Capital Finance Unit or the Director of Housing may conduct the evaluation. Whether they complete the analysis or the outside loan servicer completes the analysis, the Regional Area underwriting staff shall:

- Prepare foreclosure or write-off recommendations to project managers and regional administrators.

- Prepare Loan Committee recommendations and reports.
- Prepare Board Memorandum and City Council transmittals in the event the Agency proceeds with foreclosures or write-off.

The Asset Management Section shall monitor the status of the evaluation and shall ensure that the status of the loan is properly reported in all loan default reports.

C. Approval of Forbearance Agreements

A Forbearance Agreement is a temporary plan or payment schedule entered into between the Agency or its Loan Servicing Consultant and a borrower to allow the borrower to make-up past due payments or other delinquencies under the loan agreement or promissory note. Forbearance Agreements may not modify the terms and conditions of the underlying loan. Agreements that modify the terms and conditions of an existing loan are considered loan restructurings and must be considered under Section V of these procedures.

The most common type of Forbearance Agreement allows the borrower under an amortized note to make up past due payments that resulted from a temporary financial hardship such as the loss of a job. Forbearance Agreements may also be requested when the Agency has issued a NOD and the Agency postpones a foreclosure sale to allow the borrower to sell the property or otherwise cure the default. Forbearance Agreements must:

- Be in writing and signed by the borrower.
- Be temporary in nature and have a specific term (ending date).
- May not modify the terms and conditions of the loan documents.

Forbearance Agreements must be approved as follows:

- (1) The Director of Business Operations & Asset Management must approve Forbearance Agreements that provide for making-up payments over a period of up to six months.
- (2) The respective Regional Administrator must approve Forbearance Agreements that provide for making-up payments over a period between six months and one year.
- (3) Forbearance Agreements that provide for making-up payments over a period greater than one year must be approved by the Regional Administrator with review and concurrence by the Loan Committee.
- (4) The Loan Committee and the Chief Financial Officer must approve Forbearance Agreements that postpone a foreclosure sale after the issuance of a NOD.

Forbearance Agreements that are approved pursuant to number (3) and (4) above must be reported to the Board within 60 days of approval.

D. Senior Lender Foreclosures

When the Agency makes a loan to a borrower that is secured by a deed of trust and the Agency deed is subordinate to the deed of trust held by another lender, the Agency lien will be lost if the other lender forecloses on their deed of trust and there is insufficient sale proceeds to repay the loans. Loans at risk of senior lender foreclosure shall be evaluated pursuant to Section B above in the same manner as the potential foreclose by the Agency; however, the need to act quickly is more urgent. To help protect the Agency's secured interest in the property by ensuring that the Agency has sufficient time to act in the event that a senior lender issues a NOD against a property, the underwriting staff should:

- Ensure that any subordination request approved pursuant to Section IV of these administrative procedures requires adequate notice to the Agency of any borrower default.
- Record a Request for Notice for each existing deed of trust at the time that the Agency deed of trust is recorded.

The options available to the Agency when a senior lender records a NOD are as follows:

- Negotiate with the lender to allow the borrower more time to cure the default or to allow the Agency more time to evaluate its alternatives or pursue its own foreclosure.
- Make a payment to bring the senior lenders loan current thereby canceling the NOD.
- Allow the senior lender to foreclose and make a bid at the Trustee's Sale to protect the Agency's investment.
- Do nothing and allow the senior lender to foreclose and wipe out the Agency deed of trust.

The following approvals are required to authorize one of the alternatives listed above:

- (1) To make a payment to bring a senior loan current after the issuance of a NOD when there are sufficient budgeted funds available to make the payment: Regional Administrator.
- (2) To place a bid at a Trustee's Sale when there are sufficient budgeted funds available to protect the Agency investment:
 - a. Regional Administrator
 - b. Loan Committee (concurrence)
- (3) To place a bid at a Trustee's Sale when there are sufficient budgeted funds available to make the payment but there is insufficient time available to seek Loan Committee concurrence:
 - a. Regional Administrator
 - b. Chief Financial Officer
- (4) A decision not to place a bid at a senior lender foreclosure sale and allow a senior lender to foreclose:

- a. Regional Administrator
- b. Loan Committee (concurrence)
- c. Chief Financial Officer

When sufficient budgeted funds are not available to make a payment to bring a senior lender's loan current or to place a bid at a Trustee's Sale, the Agency shall seek approval pursuant to the City Budget Ordinance. In the event that the Agency places a bid at a foreclosure sale, the action shall be reported to the Board within 60 days. In the event that a decision is reached not to bid at a foreclosure sale, that decision should be reported to the Board prior to the Trustee's Sale whenever feasible. If timing does not allow this decision to be reported to the Board in advance, the decision must be reported within 60 days.

When a decision has been reached to place a bid at a senior lender Trustee's Sale, special consideration must be made whenever Agency Covenants have been recorded against the property. While placing a bid equivalent to the level of Agency debt plus the senior lender's debt may ensure the full recovery of the Agency loan, if the Agency Covenants have been subordinated to the senior lender's deed of trust, a third party could still outbid the Agency and wipe out the Covenants.

E. Approval of Foreclosure

The following approvals are required for the various steps in the foreclosure process:

- (1) Issuing delinquent notices for all loans: Director of Business Operations & Asset Management.
- (2) Issuing Notices of Intent and recording Notices of Default for 1-4 unit residential projects and single family homes: Director of Business Operations & Asset Management.
- (3) Issuing Notices of Intent for commercial loans and residential projects with greater than 4 units:
 - a. Director of Business Operations & Asset Management
 - b. Project Manager
- (4) Recording Notices of Default for commercial loans and residential projects with greater than 4 units:
 - a. Regional Administrator
 - b. Office of the City Attorney
- (5) Recording Notices of Trustee's Sale:
 - a. Regional Administrator
 - b. Loan Committee (concurrence)
 - c. Office of the City Attorney
- (6) Proceeding with foreclosures:
 - a. Chief Financial Officer
 - b. Office of the City Attorney

- (7) A decision, after completion of due diligence evaluation, to categorize a loan as non-performing and not proceed with foreclosure:
- a. Regional Administrator
 - b. Loan Committee (concurrence)
 - c. Chief Financial Officer

Notices of Default shall be highlighted on all default reports. Foreclosure activities and decisions not to proceed with foreclosure shall be reported to the Board within 60 days.

F. Deed In-Lieu of Foreclosure

On occasion, the Agency has agreed to allow a borrower to transfer title to a property back to the Agency as satisfaction of a loan without going through the foreclosure process. The document used to transfer title back to a lender in these instances is known as a Deed In-Lieu of Foreclosure. There are several advantages to agreeing to take a property back in this manner:

- The Agency is saved the time and expense of the foreclosure process.
- The potential disruption to tenants is minimized.
- The Agency will continue to exercise control over the management of the property. A property sold at auction may be purchased by a bidder that the Agency may not otherwise find acceptable.
- The borrower will not have the stigma of a foreclosure appear on their credit history.

Accepting a deed in-lieu of foreclosure is not always advantageous to the Agency. For example, if the Agency lien is in senior position to other subordinate debt, accepting title to the property will require the Agency, as the new owner, to take the properties subject to that subordinate debt. In this instance the Agency would be better served foreclosing on the property, which would wipeout the subordinate lien. As property owner, the Agency would also be required to make any repairs needed to the property and cover any project operating deficits. For this reason, a foreclosure analysis, as outlined in Section IV.B above, must be performed to determine the feasibility of accepting a deed in-lieu of foreclosure.

Acceptance of a deed in-lieu of foreclosure must be approved by the Regional Administrator and the Chief Financial Officer with the concurrence of the Loan Committee. Any acceptance of a deed in-lieu of foreclosure shall be reported to the Board within 60 days. When the deed in-lieu of foreclosure is recorded, the Asset Management Section shall write the loan off from the Loans Receivable System and enter the property into the Agency Land Inventory system as Agency-owned property. The value of the property in the land inventory shall be the principal balance of the loan with accrued interest at the time that the deed was accepted.

VII. WRITE-OFF PROCEDURES

A. General

It is the general policy of CRA/LA that Agency loans, including accrued interest, not be voluntarily written-off. If an Agency loan becomes delinquent and the Agency elects not to foreclose or take other action, the loan shall be categorized as “uncollectible”; however, the loan will still not be written-off as long as the Agency holds a valid lien or secured interest in property or other valuable collateral. Nevertheless, situations may arise where loans become uncollectible and the Agency’s collateral is lost or invalidated. In these cases, the Agency loan should be written-off from the Agency’s financial statement.

B. Recourse vs. Non-recourse Loans

Most Agency loans are secured real estate loans that are “non-recourse”. The primary difference between non-recourse and recourse loans is the ability to collect on them in the event of default as defined below:

- Non-recourse loan. A loan that is secured by some sort of collateral, usually property. The issuer can seize the collateral if the borrower defaults. The satisfaction upon default may be obtained only out of the collateral securing it.
- Recourse loan. A loan whose satisfaction upon default may be obtained from the debtor's assets other than and in addition to the collateral securing it.

The Agency occasionally makes non-recourse loans for predevelopment activities, usually to non-profit developers, that are not secured by real estate. In those cases, the developer typically does not own the property that is the subject of the predevelopment activities and the loan is “secured” by the work products (plans, etc.) that are funded by the loan. The security for these loans is typically evidenced by a Promissory Note and an Assignment of Architect’s Contract or similar document but not by a deed of trust.

Most Agency loans are secured by Deeds of Trust. Under a Deed of Trust the borrower (the “Trustor”) gives the Trustee (usually a title company) the right to sell the property if the borrower defaults. Both recourse and non-recourse loans may be secured by Deeds of Trust. In the event of a default the lender under a recourse loan may elect one of two types of foreclosure: Trustee’s Sale or Judicial Foreclosure. In the event the lender pursues a Judicial Foreclosure they may be able to secure a Deficiency Judgment against the borrower in the event that the sale of the property is insufficient to satisfy the full amount of the debt.

Under a non-recourse loan secured by a Deed of Trust the only option available to the lender in the event of a default is to foreclose by Trustee’s Sale. At the Trustee’s Sale, the property is auctioned and the lender receives the auction price less selling costs and payment of any tax liens as satisfaction of their debt.

Uncollectible loans where the Agency continues to hold a valid lien but has made a determination that foreclosure is not feasible shall be categorized as “Non-Performing” on all Default Reports. Non-Performing loans shall be reviewed annually by the Loan Committee to determine whether a change in status is justified. Each year, after the annual review, a notice will be sent to the borrower reminding them of their obligation to the Agency.

C. Senior Lender Foreclosures

Although most Agency loans are secured by Deeds of Trust recorded against real property, the liens are often subordinate to the lien of a senior lender. While participating as one of two or more lenders on a project allows the Agency to leverage its funds more effectively, it also increases the risk associated with a loan. In the event of a foreclosure, the deeds of trust securing the loans against a property have different priorities on the underlying security. The most senior loan recorded against the property has the most security (a “first” trust deed position). A “subordinate” loan is one that has a lower priority in the event of a foreclosure and is generally considered a more risky loan.

Agency loans may have a senior or subordinate position at the time that they are initially approved and funded. If the Agency loan is in a senior position and a private lender provides subsequent financing, the private lender will typically require the Agency to subordinate its lien position as a condition of funding the private lender’s portion of a loan. A Subordination Agreement is an agreement that allows the Borrower to obtain a new loan with a trust deed position that is superior to the Agency’s trust deed position. Subordinations are also requested in cases where the borrower wants to refinance their debt to lower the interest rate or monthly payment on their loan, to consolidate debts, or to payoff a balloon loan.

If a senior lender’s debt becomes delinquent, and the senior lender forecloses on the property, the Agency’s secured interest in the property is lost. If the Agency loan is a non-recourse note, the Agency has no further remedies against the borrower once the lien is lost. Properties under threat of tax sale shall be analyzed and treated in the same manor as a senior lender foreclosure.

D. Write-Off Approvals

For a loan to be written off from the Agency loan portfolio, the following authorizations must be secured:

- (1) Upon receiving the work products securing a non-recourse loan that does not have a recorded deed of trust with a combined principal and interest balance of less than \$100,000:
 - a. Regional Administrator
 - b. Loan Committee (concurrence)
 - c. Office of the City Attorney (as to form and legality)

- (2) Upon receiving a copy of the Trustee's Deed Upon Sale documenting a senior lender foreclosure a non-recourse note secured by a Deed of Trust with a combined principal and interest balance of less than \$100,000:
 - a. Director of Business Operations & Asset Management
 - b. Regional Administrator
 - c. Office of the City Attorney (as to form and legality)
- (3) Upon receiving a copy of the Trustee's Deed Upon Sale documenting a senior lender foreclosure a non-recourse note secured by a Deed of Trust with a combined principal and interest balance of more than \$100,000 and less than \$250,000
 - a. Regional Administrator
 - b. Loan Committee (concurrence)

The Agency Board must approve all other write-offs after review by the Loan Committee. Write-offs approved under options (1), (2) or (3) above must be reported to the Board within 60 days of the loan being removed from the Agency loan portfolio.

E. Short Sale Procedures

Occasions may arise where a property that secures an Agency loan is sold for less than the balance of the liens encumbered against the property. If the Agency debt is subordinate to a senior lender, the sales price may be sufficient to pay-off the entire senior lender loan but will only cover a portion of the Agency loan. In an extreme case, the value of the property may not be sufficient to cover the senior lender loan and the sale of the property will result in the total loss of the Agency loan.

A property sale that does not cover the full amount of the encumbered debt is referred to as a "short sale" since a lender must accept less than full payment as satisfaction of the debt. A situation where the Agency loan accrues interest and the sales price covers the principal balance of the Agency loan but is insufficient to cover the entire accrued interest is still considered a short sale. For the sale of the property to be completed, that is for clean title to pass to the new buyer of the property, the lender who is receiving less than the full satisfaction of their debt must approve the sale transaction.

Situations that may result in a short sale would include:

- The property has been impacted by an uninsured or underinsured disaster. The owner may have insufficient funds or be unable to borrow sufficient funds to repair the property.
- A declining real estate market has reduced the value of the property and the owner must sell because of personal financial hardship (e.g., loss of a job, etc.) or insufficient cash flow to cover the debt on the property. The property may or may not already be in foreclosure.

- The Agency made a high loan-to-value ratio loan (100% or greater) to promote a redevelopment purpose and the borrower is not able to sustain the debt on the property or meet other financial or programmatic requirements.
- An investment property has not been well maintained or has not generated sufficient cash flow to maintain reserves and the borrower is unable to make building repairs.

If a short sale is not approved in one of these situations, the property conditions generally deteriorate. Properties that are not already in foreclosure will generally be forced into foreclosure. Property taxes and other operating obligations begin to become delinquent. In the event of a senior lender foreclosure, the Agency lien will be lost. In addition, if the Agency has recorded covenants against the property and those covenants have been subordinated, a foreclosure sale will result in a loss of the covenants as well as the lien securing the Agency loan.

Three overriding considerations must be met before staff may consider a short sale request:

- The property sale must be an “arms-length” transaction. An arms-length transaction is one where there is no relationship between a buyer and seller who are performing in good faith in the ordinary course of business. In the event there is a dispute about whether a transaction meets this requirement, the Office of the City Attorney shall make a determination.
- Property value must be verified through an appraisal or some other form of validation acceptable to the Agency.
- The transaction should result in no cash-out to the seller. The seller’s motivation for selling the property should be to stem the property’s operating losses and to reduce the negative implications on the seller’s credit rating. In the event the property is owner-occupied and the Agency is recovering its original principal balance, consideration for reasonable moving expenses may be approved.

The analysis to determine whether a proposed short sale transaction meets these threshold requirements shall be conducted by the underwriting staff of the respective Regional Area or, upon the request of the Regional Administrator and concurrence of the Manager of Capital Finance or the Director of Housing by the staff of the Capital Finance Unit or the Director of Housing. The staff conducting the analysis, whenever feasible, shall enter into negotiations with the borrower and all other secured lenders to see if a compromise settlement can be reached that treats all secured lenders equally or if the potential loss of any Agency covenants can be diverted.

If the transaction is an arms-length transaction, the property has been valued in a manner acceptable to the Agency, and there is no cash-out to the seller, short sale requests may be approved as follows:

- (1) Single family homeowners and owner occupied 1-4 unit residential property short sales must be approved by the following:

- a. Director of Business Operations & Asset Management
 - b. Regional Administrator
- (2) For investor owned properties where the Agency is receiving the full principal balance of its loan and 50% or more of the accrued interest, where the loss of accrued interest is \$50,000 or less, property short sales must be approved by the following:
- a. Regional Administrator
 - b. Chief Financial Officer
- (3) All other property short sales must be approved by the following:
- a. Regional Administrator
 - b. Loan Committee (concurrence)

All short sales must be reported to the Board within 60 days of the completion of the sale. In the event the short sale is not an arms-length transaction, the property valuation is not acceptable to the Agency or the seller demands a return on their investment, the Agency Board must approve the short sale request.

VIII. COMPLIANCE MONITORING

Compliance monitoring refers to the monitoring of non-financial aspects of loan and grant agreements. These include:

- Construction/contractor compliance including prevailing wage requirements.
- Housing monitoring including physical inspections of rental housing units to ensure that residential units are maintained in a safe, sanitary and decent condition and monitoring of rental housing income restrictions to verify that residential units are occupied by tenants that meet the income levels required by Agency covenants and other loan documents.
- The Asset Management Section monitors homeownership resale restrictions that require for-sale housing units to be sold to low- and moderate-income buyers.
- Monitoring of insurance requires. The Records and Risk Management Section of the Administrative Services Department coordinate insurance monitoring. For loans that are monitored by an outside loan servicing consultant, the loan servicer shall monitor property insurance pursuant to the existing servicing contract. When the current loan-servicing contract expires in 2006, the Asset Management Section shall ensure that the next contract requires the loan-servicing consultant to monitor all insurance requirements of the loan documents, including liability insurance.
- Monitoring of post-construction public benefit requirements.

Construction Monitoring

During construction of the improvements funded by an Agency loan, the Regional Area construction staff or consultants shall make periodic inspections of the property and approve construction draw requests as required by the Loan Agreement and/or any Intercreditor Agreements entered into with other private or public lenders. The Regional Administrator, or delegate, shall approve funds disbursed for non-construction related soft costs.

For projects undertaken in conformance with the requirements of the Agency's Prevailing Wage Policy, the developer shall pay or cause to be paid to all workers employed in connection with the development of the property, not less than the prevailing rates of wages, as provided in the statutes applicable to Agency public works contracts, including without limitation to sections 33423-33426 of the California Health and Safety Code and sections 1770-1780 of the California Labor Code. The Agency's "Policy on Payment of Prevailing Wages by Private Redevelopers or Owner Participants" is incorporated herein by reference. Monitoring of prevailing wage requirements is the responsibility of the staff of the Audits and Compliance Department.

Depending upon the scope of the project and review by the appropriate Agency staff, the borrower may also be subject to the Agency's Living Wage Policy and the Contractor Responsibility and Equal Benefits Policy. Reporting requirement under these policies shall be determined by and coordinated with the staff of the Contracts and Purchasing Department.

Housing Monitoring

The Housing Monitoring Section of the Technical Services Department (“Section”) is responsible for conducting physical inspections of residential properties that receive Agency financial assistance and for monitoring rental income restrictions (housing covenants) for residential projects that receive Agency financial assistance. Additional information regarding housing compliance monitoring and reporting requirements may be found in the CRA Housing Policy.

If a physical inspection finds conditions that are unsafe or unsanitary, the Section shall issue deficiency notices for corrective action to the borrower or the borrower’s management agent. Monitoring of housing covenants includes review of reports provided by borrowers and property managers, periodic inspection of tenant files and records and interviews with tenants. If the Section determines that there is a lack of compliance with the restrictions, the Section shall issue deficiency notices for corrective action to the borrower or the borrower’s management agent. The Section shall maintain records of all inspections performed, all deficiency notices and all corrective actions taken.

Violation of the Agency housing monitoring policies shall entitle the Agency to terminate the Agreement and otherwise pursue legal remedies that may be available under the Loan Agreement. Any party claiming violation of CRA Housing Policy, including officials or staff of other City departments; residents of residential projects funded, assisted or approved under an Agreement with the Agency, or their representatives; may report such claimed violation to the Agency staff, which shall investigate such complaint. Whether based upon such a complaint or otherwise, where the Agency staff has determined that a borrower to which this Policy applies has violated this Policy, the Agency shall issue a written notice to the borrower that the violation is to be corrected within ten (10) days. In the event that the borrower has not demonstrated to the Agency staff within such period that it is no longer in violation, the Agency staff shall then:

- (1) Request the Agency Board at its next regularly scheduled meeting to declare a material breach of the Agreement and exercise its contractual remedies thereunder, which are to include, but not be limited to, termination of the Agreement and the return of monies paid by the Agency for services not yet rendered.
- (2) Request the City Council to debar the borrower from future City Agreements, contracts leases, and licenses for three (3) years or until all penalties and restitution have been fully paid, whichever occurs last. Such Debarment shall be to the extent permitted by, and under whatever procedures may be required by, law.
- (3) Request the Agency Board to debar the borrower from future City Agreements, contracts leases, and licenses for three (3) years or until all penalties and restitution have been fully paid, whichever occurs last. Such Debarment shall be to the extent permitted by, and under whatever procedures may be required by, law.
- (4) Request the City Attorney to bring a civil action against the borrower seeking a fine payable to the Agency in the amount of up to one hundred dollars (\$100.00) for each

violation for each day the violation remains uncured.

Notwithstanding any provision of the Policy or any law or ordinance to the contrary, no criminal penalties shall attach for and violation of this Policy.

Homeownership Resale Restrictions

The Agency loan portfolio contains a number of “homeownership” loans. The majority of these loans derived from Agency assisted condominium developments where the Agency provided secondary financing to condominium buyers. A growing number of loans in this portion of the portfolio are from “scattered site” first-time homebuyer’s programs that are marketed in targeted areas in various redevelopment areas to promote homeownership opportunities for families and individuals entering the housing market for the first time. The most common homeownership loans are “soft second” mortgages which are essentially deferred loans that are not due until the owner sells or refinances their property. Depending upon the specifics of the program under which the loan is made, a homeownership loan may be an amortized loan or a deferred loan and is monitored according to the loan type as detailed in Section II of these administrative procedures.

The monitoring of homeownership resale restrictions is different from the monitoring of the repayment terms of the homeownership loan. These restrictions restrict the purchase of Agency assisted condominiums and homes to households meeting low and/or moderate-income limits as established by the HUD. The restrictions typically have a finite end date. As a general rule, the homeownership restrictions survive the repayment of the loan. As interest rates have declined and home values have increased dramatically over the past several years, more and more owners of Agency subsidized units are refinancing their loans to access their equity. The refinancing triggers the repayment of the Agency loan – which is then removed from the loan portfolio – but the resale restrictions of the unit continue to be monitored until the end of the term of the restrictions.

The Asset Management Section monitors homeownership resale restrictions. This involves the following primary duties:

- (1) Qualifying new buyers of restricted units to ensure that their household income qualifies them to buy the unit. Income information must be gathered on the buyer’s household to make this determination.
 - a. If the new buyer wants to assume existing Agency secondary financing, the loan assumption will be processed according to Section IV of these administrative procedures.
 - b. If the Agency loan has been repaid, or will be repaid through the sale of the unit, the buyer’s primary lender loan application and income information may be used to evaluate the buyer’s income level and qualify them for the unit - the buyer does not need to provide a separate Agency loan application if this information is

sufficient.

- (2) If the buyer's household income is greater than the allowable income level, the buyer, the seller and the escrow company will be notified that the sale cannot proceed.
- (3) If the buyer qualifies to buy the unit, an Acknowledgement of Resale Restriction and a Non-Monetary Deed of Trust must be executed by the buyer and recorded against the property through the acquisition escrow.
- (4) If the Agency has a Non-Monetary Deed of Trust recorded against a property, the Agency shall approve any reasonable subordination request made by the owner of the unit. A request shall be deemed reasonable if it meets the following criteria:
 - a. The amount of debt does not exceed the fair market value of the property.
 - b. A Subordination Agreement that provides the Agency adequate notice in the event that the owner defaults on their loan to the private lender is executed.

Post-Construction Public Benefits Monitoring

The Asset Management Section shall be responsible for creating and maintaining a database for monitoring post-construction terms and conditions included in Agency Loan Agreements as well as Owner Participation Agreements and Disposition and Development Agreements. Once this database has been created, the section shall monitor the submission of any required reports and shall transmit the reports to Regional Area staff to determine compliance. The terms and conditions to be monitored in this manner shall include: local hiring, use of local businesses, post-construction living wage requirements (coordinated with the Contracts and Purchasing Department and the City of Los Angeles), land-use actions, environmental mitigation and parking/traffic requirements.

IX. DEFAULT REPORTING

Commencing in October 2005, the Asset Management Section shall issue quarterly status reports on the Agency loan portfolio and loans in default to the Agency Board. The report shall include the following schedules:

- (1) A portfolio summary schedule that contains the current principal balance of the portfolio by type of loan. This schedule shall also show the loan activity (new loans, etc.) during the current period.
- (2) A summary schedule on Loans in Default showing the principal balance of all loans in monetary and technical default. This schedule shall list loans by loan type and shall break out monetary and technical defaults separately. Technical defaults will only be included on the report if they have been identified as *Material Defaults* as defined in Section II of these administrative procedures.
- (3) A detailed loan listing sorted in the same manner as the report in (2) above but including each loan in default by loan number and borrower name. This report shall exclude the borrower name for owner occupied 1-4 unit projects and homeownership loans. A status description of the default for each loan shall be included.
- (4) A separate schedule listing any write-offs and forbearance agreements approved pursuant to these administrative procedures during the current period.

Copies of the quarterly report on loans in default shall be sent to the General Managers of the Housing and Community Development Departments.³

³ Under a motion made by Councilmember Bernard Parks on May 13, 2005 (Council File 05-1002) and currently pending Council committee consideration, the CAO and the CLA are evaluating the feasibility of implementing a single repository housing citywide contractor default information. This repository, as currently proposed, would include CRA loan default information.

X. AMENDMENTS TO PROCEDURES

A. Changes to Administrative Procedures

Many of the procedures outlined in this manual are administrative practices that do not require policy decisions from the Agency Board or City Council. These administrative practices fall into two main categories: 1) organizational; and 2) operational.

Organizational issues are those that relate to specific job titles, departments and which staff member performs which function. Changes in the organization may impact these *Loan Monitoring Policy and Procedures* in a manner that does not impact policy decisions. For example, certain loan monitoring responsibilities and delegations have been given to the Director of Business Operations & Asset Management. Should this staff member's title change or the responsibilities of the department the staff member works in change, the change may require minor administrative changes to the procedures outlined in this manual. Changes of this nature may be made with the approval of the Chief Financial Officer.

The other administrative type of change to these administrative procedures deals with the specific day to day practices employed in the monitoring of loans. For example, when the staff member responsible for monitoring residual receipt statements receives a request for an extension to the date that a statement is due, the request is evaluated and, if approved, the borrower is not considered in technical default if the statement is received on or before the extension date. A change to the criteria used by the Agency to evaluate such a request, would constitute a non-organizational administrative change to these administrative procedures. A change of this nature to the procedures may be made with the approval of the Chief Financial Officer and review and concurrence by the Loan Committee.

B. Policy Amendments

Changes to the Board and City Council approved delegations of authority contained in the manual will require further approval by the Board and City Council. This specifically applies to changes covering the delegations relating to following topics:

- Assignment and Assumptions Procedures
- Loan Restructuring Procedures
- Forbearance and Foreclosure Procedures
- Loan Write-Off Procedures
- Covenant Enforcement Procedures

C. Public Availability

An electronic copy of most recent version of the procedures shall be available on the Agency website to assist borrowers and commercial lenders in understanding the Agency's lending requirements.

DEFINITIONS

Amortized (Installment) Loan. This category of loan includes any loan that has fixed periodic payments. This includes loans requiring monthly fully amortizing payments, interest only loans with balloon payments, and loans requiring single annual payments that may cover all or only a portion of the annual interest accrual.

Annual Statement. Under a Conditional Grant, a statement provided by the Borrower documenting that all services, actions or other conditions required for the forgiveness of the loan or portion thereof have been met. Annual Statements are also required for Residual Receipt loans in the form of a financial statement (typically audited) for the project.

Assumption. An assumption is defined as an agreement made between a new or proposed property owner and the Agency to allow a new owner to assume the obligations of the original Borrower under the terms and conditions of the existing loan agreement, promissory note and deed of trust.

Conditional Grant. Also known as a “Forgivable Loan”, a “Conditional Loan”, or a “Disappearing Loan”, a type of financial assistance whose principal balance and interest, if any, is forgiven at the end of its term, or a portion of which is forgiven annually over its term, if certain conditions are met.

Covenant/Covenant Agreement. A legal document, recorded with the County Recorder’s Office that restricts the use of the site. The most common types of covenant relating to Agency loans are housing covenants that limit the rental rates that can be charged for rental properties or resale restrictions that impose income limitations on buyers of homeownership units. Covenants typically run for a specific term and usually remain in place even if a loan is repaid.

Deed of Trust. A Deed of Trust is a legal document, recorded with the County Recorder’s Office that secures real property for the repayment of a debt. If a Loan Agreement requires the loan be secured by the recording of a Deed of Trust, the Asset Management Section shall not approve the disbursement of loan proceeds until a conformed copy (a copy showing the recordation number) has been received. In the event that a secured loan is funded without a Deed of Trust being recorded, Asset Management shall include that loan in its next report to the Board on the status of the loan portfolio.

Default. A material breach caused by an omission or failure on the part of one party to a loan agreement to perform a contractual duty under the terms of the agreement. For example, a Borrower’s failure to make required payments or submit a required Annual Statement would put the Borrower in “default.”

Deferred Loan. A loan with no periodic payments; the principal balance being recovered at the end of a designated term or when the title to collateral property is sold, transferred, encumbered, or in accordance with special deferred repayment provisions in the loan agreement. Examples of deferred notes are Predevelopment Loans and Silent Second Homeownership Loans.

Deficiency Judgment. A judicial decision in a Judicial Foreclosure that allows the lender to obtain satisfaction from a debtor's assets other than and in addition to the collateral securing the loan.

Disposition and Development Agreement (DDA). A contract between a developer and the Agency that involves the sale (or ownership transfer) of Agency-owned land for a proposed development, and for the development of the project.

Forbearance Agreement. A temporary plan or payment schedule entered into between the Agency or its Loan Servicing Consultant and a borrower to allow the borrower to make-up past due payments or other delinquencies under the loan agreement or promissory note.

Loan Agreement. A contract that defines the terms and conditions of the borrower's obligations to repay the loan to the Agency.

Loans Receivable System (LRS). Computerized database system maintained by the Asset Management Section that tracks the status of the Agency's loan portfolio. The Asset Management shall ensure that all required documentation (executed promissory notes, Deeds of Trust, etc.) for new loans are properly documented in a file prior to setting up any new loan in the LRS.

Loan Repayment. Payment owed under a promissory note or loan agreement in accordance with the terms and conditions of the agreement.

Loan Servicing Consultant. A contractor, hired by the Agency, to perform specific loan monitoring duties.

Maintenance Plan. An attachment to a "Maintenance" type of Forgivable Loan that includes a checklist of requirements/conditions that must be met before the loan can be "forgiven".

Material Default/Material Event of Default. A serious technical default which is material in nature and may lead to a recorded Notice of Default and the Agency exercising its rights under the loan documents.

Non-recourse loan. A loan that is secured by some sort of collateral, usually property. The issuer can seize the collateral if the borrower defaults. The satisfaction upon default may be obtained only out of the collateral securing it.

Notice of Default (NOD). A Notice of Default is an official document, recorded with the County Recorder's Office, issued by a trustee in favor of a lender stating that a borrower has defaulted under the provision of a Deed of Trust recorded against a property. The issuance of a NOD provides for a statutory 90-day period during which the borrower will be given the opportunity to enter into good faith negotiations to resolve any difficulties they may have in meeting their obligation to the lender or to bring the loan current.

Notice of Intent (NOI). A formal letter to a borrower informing them know that a lender intends to record a NOD if the borrower does not cure a loan in default.

Notice of Trustee’s Sale. A recorded, published, notification of a scheduled foreclosure sale of a property. A Notice of Trustee’s Sale is issued after the 90-day NOD period has passed and the loan has not been brought current or the negotiations failed to reach a satisfactory resolution.

Owner Participation Agreement (OPA). A contract between a property owner/developer and the redevelopment agency to allow the development of property owned by an entity other than the Agency, generally the owner/developer.

Program Guidelines. All new loan and grant programs require the approval of the Agency Board of Commissioners and the Los Angeles City Council. The conditions contained in the Board and City Council actions under which the loans may be granted are the “Program Guidelines”.

Promissory Note. A promise, in writing and executed by the borrower, to pay a specific amount to the Agency at a specific time or upon demand.

Property Management Plan. An attachment to a Loan Agreement that identifies the property management requirements that must be met as a condition of the loan. Failure to abide by the prescribed Management Plan may result in default.

Regional Area. A regional grouping of Redevelopment Project Areas and the staff assigned to those areas.

Request for Notice. A legal document recorded pursuant to Civil Code section 2924b that provides notice in the event that a Notice of Default or similar notice is recorded under a specific deed of trust.

Residual Receipt Loan. A loan without a specific payment amount where the Agency receives all or a portion of a project’s residual cash flow, if any, after deducting reasonable operating costs, debt service on senior debt and reasonable reserves as defined in the loan agreement. Borrowers are required to submit annual financial statements, usually audited by an independent certified public accountant.

Subordination. A subordination is an agreement that allows the Borrower to obtain a new loan with a trust deed position that is superior to the Agency’s.

Title Insurance. Title insurance is purchased by individuals or organizations purchasing property, and by lenders who use property as security for loans, as protection against unknown liens or deed restrictions clouding the ownership of the property or affecting the property’s value.

EXHIBITS

- Exhibit A – Summary of Delegated Authorities
- Exhibit B – Sample Conditional Grant Write-Off Authorization
- Exhibit C – Sample Foreclosure Analysis

EXHIBIT A – SUMMARY OF DELEGATED AUTHORITIES

Transaction Type	Delegation
Assumptions (Section III)	<ul style="list-style-type: none"> ▪ SFR and owner occupied 1-4 unit residential projects that meet applicable underwriting guidelines: Regional Administrator ▪ SFR and owner occupied 1-4 unit residential projects where exceptions are made to applicable underwriting guidelines: <ul style="list-style-type: none"> o Regional Administrator o Loan Committee (concurrence) ▪ Change in Limited Partner: <ul style="list-style-type: none"> o Regional Administrator o Chief Financial Officer ▪ Change in General Partner, or new development entity: <ul style="list-style-type: none"> o Regional Administrator o Chief Financial Officer o Loan Committee (concurrence)
Subordination (Section IV)	<ul style="list-style-type: none"> ▪ Refinance existing debt: Director of Business Operations & Asset Management ▪ Medical hardship/emergencies and emergency building repairs with LTV less than 100% and cash out < \$100,000: Regional Administrator ▪ Medical hardship/emergencies and emergency building repairs with LTV less than 100% and cash out > \$100,000: <ul style="list-style-type: none"> o Regional Administrator o Loan Committee (concurrence)
Loan Restructuring (Section V)	<ul style="list-style-type: none"> ▪ Modifications to loans made under existing program guidelines may be approved under the same authority as a new loan. ▪ Loan increases that fall within existing delegations of authority may be approved under those delegations. ▪ Modifications that do not require new loan funds and do not modify the interest rate or loan repayment type: <ul style="list-style-type: none"> o Regional Administrator o Loan Committee (concurrence) o Chief Financial Officer
Forbearance Agreements (Section VI)	<ul style="list-style-type: none"> ▪ Forbearance Agreements up to six months in length: Director of Business Operations & Asset Management. ▪ Forbearance Agreements for a period of six months to one year: Regional Administrator ▪ Forbearance Agreements longer than one year: <ul style="list-style-type: none"> o Regional Administrator o Loan Committee (concurrence) ▪ Agreements postponing foreclosure sale after issuance of Notice of Default: <ul style="list-style-type: none"> o Regional Administrator o Chief Financial Officer
Senior Lender Defaults/Foreclosures (Section VI)	<ul style="list-style-type: none"> ▪ Authorization to make payment to a senior lender: Regional Administrator ▪ Authorization to bid at senior lender Trustee’s Sale: <ul style="list-style-type: none"> o Regional Administrator o Loan Committee (concurrence) ▪ Authorization to bid at senior lender Trustee’s Sale with insufficient time to seek Loan Committee concurrence:

Transaction Type	Delegation
	<ul style="list-style-type: none"> o Regional Administrator o Chief Financial Officer ▪ Decision not to bid at senior lender foreclosure sale and allow senior lender to foreclose: <ul style="list-style-type: none"> o Regional Administrator o Loan Committee (concurrence) o Chief Financial Officer
<p>Notice of Default/ Foreclosure (Section VI)</p>	<ul style="list-style-type: none"> ▪ Delinquent Notices: Director of Business Operations & Asset Management ▪ NOIs and NODs for SFR and 1-4 unit residential projects: Director of Business Operations & Asset Management ▪ NOIs for commercial loans and larger residential loans: <ul style="list-style-type: none"> o Director of Business Operations & Asset Management o Project Manager ▪ NODs for commercial loans and larger residential loans: <ul style="list-style-type: none"> o Regional Administrator o Office of City Attorney ▪ Recording Notice of Trustee’s Sale: <ul style="list-style-type: none"> o Regional Administrator o Loan Committee (concurrence) o Office of City Attorney ▪ Proceeding with foreclosure: <ul style="list-style-type: none"> o Chief Financial Officer o Office of City Attorney ▪ Decision to categorize a loan as non-performing and not to proceed with foreclosure: <ul style="list-style-type: none"> o Regional Administrator o Loan Committee (concurrence) o Chief Financial Officer ▪ Acceptance of deed-in-lieu of foreclosure: <ul style="list-style-type: none"> o Regional Administrator o Loan Committee (concurrence) o Chief Financial Officer
<p>Write Off (Section VII)</p>	<ul style="list-style-type: none"> ▪ Predevelopment loans < \$100,000 without recorded deed of trust upon receipt of work products: <ul style="list-style-type: none"> o Regional Administrator o Loan Committee (concurrence) o Office of City Attorney ▪ Non-recourse loans < \$100,000 after senior lender foreclosure: <ul style="list-style-type: none"> o Director of Business Operations & Asset Management o Regional Administrator o Office of City Attorney ▪ Non-recourse Loans > \$100,000 and < \$250,000 after senior lender foreclosure: <ul style="list-style-type: none"> o Regional Administrator o Loan Committee (concurrence) ▪ Short sale for SFR and 1-4 unit residential loans ⁽¹⁾: <ul style="list-style-type: none"> o Director of Business Operations & Asset Management o Regional Administrator ▪ Short sale for larger projects where principal is repaid and loss of interest is less than \$50,000 ⁽¹⁾: <ul style="list-style-type: none"> o Regional Administrator

Transaction Type	Delegation
	<ul style="list-style-type: none"> o Chief Financial Officer ▪ All other qualifying short sales ⁽¹⁾: <ul style="list-style-type: none"> o Regional Administrator o Office of City Attorney

⁽¹⁾ Qualifying short sales must be arms-length transactions with a property valuation acceptable to the Agency and no cash out to the seller.

EXHIBIT B – SAMPLE CONDITIONAL GRANT WRITE-OFF AUTHORIZATION

Date:

To: (Project Manager)

Project Area:

Loan Number:

Project Name:

Project Address:

Review Period:

Describe:

Original Principal Balance:

Current Principal Balance:

This Conditional Grant needs to be reviewed to determine whether the Borrower is in compliance with the forgiveness provisions of the Agency Agreement. Please complete the lower portion of this form as appropriate and return to the **Asset Management Section**.

- Annual Statement Attached.
- The Agency Agreement does not require Borrower to submit an Annual Statement.

To: Asset Management Section

- I have reviewed the Annual Statement and/or inspected the subject property. Based on my review and/or inspection, the Borrower is in compliance with the Agency Agreement, please reduce the loan balance accordingly.
- The Borrower is not in compliance with the Agency Agreement, I suggest the following corrective actions.

Project Manager

Date

EXHIBIT C – SAMPLE FORECLOSURE ANALYSIS

Date: _____ Loan Number: _____
 Borrower: _____
 Project Name: _____
 Project Address: _____

Default: Monetary Technical
 Describe: _____

Original Agency Loan Amount: _____
 Current Outstanding Principal: _____ Accrued Interest: _____

Description of Property

Number of Units: _____ Occupied Units: _____
 Deed Restrictions: _____
 Deferred Maintenance (describe): _____

Position	Lender	Balance	Senior	Junior
n/a	Outstanding Property Taxes		X	

Cost Analysis:

A. Appraised Value: _____ Appraisal Date: _____
 B. Senior Liens: _____
 C. Agency Loan: _____
 D. Coverage: _____ (B+C)/A
 E. Deferred Maintenance (\$): _____
 F. First Year Operating Losses: _____
 G. Est. Sales Profit/Loss: _____ (A*.9)-(B+C+E+F) {est. REO price is 90%}

Staff Recommendation: Foreclose and take title.
 Allow Senior Lender to foreclose and take title.
 Do nothing and put loan into non-performing category.

Reason for Recommendation: _____

Operating Plan while in Agency possession: _____

Disposition Plan should Agency take title: _____