



COUNTY OF PLACER
Community Development/Resource Agency

Michael J. Johnson, AICP
Agency Director

PLANNING
SERVICES DIVISION

E.J. Ivaldi, Deputy Director

MEMORANDUM

TO: Honorable Board of Supervisors

FROM: Michael J. Johnson, AICP
Agency Director

By: Catherine Donovan, Housing Specialist

DATE: June 16, 2015

SUBJECT: Authorization to Approve Short-Sale for CDBG Loan Number 2000097 and Discharge Balance of the Loan

ACTION REQUESTED

Authorize the Community Development/Resource Agency Director or designee to approve a short-sale for CDBG Loan Number 2000097 in the approximate amount of \$18,102 and authorize the Director to discharge balance of the loan in the approximate amount of \$65,419.

BACKGROUND

The Community Development/Resource Agency (CD/RA) administers the Community Grant and Loan Programs for the County. The Community Grant and Loan Programs provide monies to qualified County residents who are seeking loans to purchase residential properties here in Placer County. The loans in this portfolio are made with funding that originates from the State Department of Housing and Community Development (HCD) and also contain loans that were made from the former Placer County Redevelopment Agency (RDA) tax-increment funding. RDA loans that are in the portfolio became an asset of the Housing Successor at the dissolution of the RDA, and proceeds from the repayment of those loans may be used by the Housing Successor to make new loans for housing activities per California Health and Safety Code 34176.1. Once loans are made, the loans are added to CD/RA's loan portfolio for loan servicing, long-term monitoring and management, and are administered by the Housing Services team of the CD/RA. The Board authorized CD/RA and the former RDA to apply for grant funds from HCD to allow for the following:

- Execution of all other related documents in furtherance of the application;
- Execution of a standard loan agreement, and any amendments thereto; and
- Preparation of any and all other documents or instruments necessary or required by HCD or HUD for participation in the grant programs.

This authorization has resulted in the award of grant funding to the County that is used to make homebuyer loans.

As with all loans, there are times when, for a variety of reasons, a borrower is not able to make payments on the loan, and the loan goes into default. Because the County is a subordinate lender on

these loans, the County has limited ability to collect any portion of a loan after the first lender initiates foreclosure action, or a mobile home park initiates eviction and warehouseman lien action. Prior to foreclosure action, a borrower may request that the primary lender and the County consider a short-sale payoff, in lieu of foreclosure.

Proceeds from short-sale payoffs are deposited into the County's HCD grant program revolving loan account from which the original loan was made. These funds are then available to the County to make new housing loans. The County reports to the IRS the borrower's write-off portion of the loan.

ANALYSIS

Depending on the borrower's situation, the County is typically contacted by the borrower's real estate agent or the title company handling the short-sale transaction. County staff communicates with the borrower directly or through the borrower's representative to discuss the borrower's situation.

In most instances, the title company will prepare a short-sale request package that is sent to the primary lender and the County for review. This package generally includes: an estimated settlement statement, a purchase offer for the property, borrowers' current financial information including bank statements, tax returns, pay stubs, sales comparables, and any other documentation required by the primary lender. Generally, if the sales offer is sufficient to pay the primary lender in full, the primary lender will decline to participate in the short-sale. If the sales offer is not sufficient to pay the primary lender in full, the primary lender may elect to accept a pay-off less than what is owed. The negotiation for payment between the primary lender, the County, and any other lien holders is generally handled by the title company.

The County always negotiates to recover the highest payoff possible, whether or not the primary lender participates in the short-sale, but is in a disadvantage as a subordinate lender. The advantage to the County of agreeing to a short-sale in lieu of foreclosure is to recover at least a partial repayment of the loan. In the situations where the borrower's primary lender has foreclosed on properties where the County was a subordinate lender, the County may not receive any proceeds toward the repayment of the County's loan.

At the present time the County has one request for a short-sale for a CDBG loan: CDBG Loan Number 2000097. The real property is located in the Bowman area of North Auburn in unincorporated Placer County. The original loan was made on April 1, 2003 as a deferred payment, second mortgage loan, in the amount of \$61,150 with 3 percent simple interest. The interest currently due is \$22,371 for a total balance of \$83,521. The borrower's household income has decreased by 75 percent from the time the original loan was underwritten. The primary lender in this circumstance has declined to participate in the short-sale as the proceeds from the proposed sale will pay-off the primary lender's loan in full. There is a current offer for the property of \$200,000. The proceeds of the sale would be disbursed as follows, if the County agrees to participate in the short-sale:

Primary Lender	\$161,003
County	\$ 18,102
Judgment lien property	\$ 4,855
Settlement charges	\$ 16,030
Taxes	\$ 10

The amount of funds available is based on a settlement date of July 1, 2015, and is an estimate. If the close of the sale does not occur by July 1, 2015, the payoff amounts will be recalculated to include additional late charges, penalties, interest and fees due to the primary lender.

Staff is requesting the authority to approve the short-sale in the approximate amount identified above. If the short-sale is successful, staff is requesting authority to discharge the balance of the loan.

FISCAL IMPACT

Because this loan was made with HCD grant funds, approving this short-sale will have no fiscal impact on the County's General Fund.

