

**PLACER COUNTY**

**COMMUNITY DEVELOPMENT GRANTS AND LOANS**

**MEMORANDUM**

**TO:** Honorable Members of the Board of Supervisors  
**FROM:** Richard E. Colwell, Chief Assistant CEO *REC Colwell*  
**DATE:** July 7, 2009  
**SUBJECT:** Authorize the Write-off of \$43,538, the Principal Balance of a HOME First Time Homebuyer Loan, Made in the Placer County Community Revitalization Fund.

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**ACTION REQUESTED**

Authorize the write-off of \$43,538, the principal balance of a HOME First Time Homebuyer Loan, made in the Placer County Community Revitalization Fund.

**BACKGROUND**

The Redevelopment Agency administers Community Grants and Loans Programs for the County of Placer. The programs include federal Community Development Block Grants and HOME Loan Programs. The subject loan, number 391-300091, is from a HOME First Time Homebuyer Program designed to expand the supply of affordable housing for low- and moderate-income families and individuals. These loans are designed as second mortgages with deferred repayment. Typically, the Agency funds a portion of the home purchase. The homebuyer makes no payment until the home is sold, at which time the homebuyer repays the original loan amount to the County, plus 3% simple interest on the unpaid principal balance. Additionally, in accordance with HOME Program regulations, a Resale Restriction Agreement is entered into which stipulates that the property must remain the buyer's primary residence and prohibits conversion of the property to a rental unit.

In July of 2007, the borrowers broke their covenant with the County by purchasing a new primary residence and vacating the property purchased under the HOME Program. They later notified the County that they had vacated the property and requested that it be converted to a rental unit. Due to HOME regulations the request was denied, and the borrowers were informed that their loan was now in default status and must be repaid. Because foreclosure would have made the County responsible for repayment of a first mortgage balance which, due to the declining real estate market, exceeded the value of the property, foreclosure was not pursued.

The borrowers attempted to sell the home in a "short-sale," and received an offer that would have repaid only \$1500 of the County's loan. The County was informed by the California Department of Housing and Community Development (HCD) that State and Federal regulations prohibit forgiveness of the owed principal for HOME-funded loans and that acceptance of a short-sale would constitute "forgiveness."

In the meantime, the borrowers had also defaulted on their first mortgage with Wells Fargo, which did begin a foreclosure action on the property. On March 13, 2009, a Trustee's Sale was held, and the property became Wells Fargo bank-owned property, thereby cancelling the County's trust deed on the property.

As required by law, the borrowers' failure to pay the County will be reported to the Internal Revenue Service, although this will have no effect on the County's ability to collect the unpaid loan balance of \$43,538, which is the subject of this request.

**FISCAL IMPACT**

As of May 31, 2009, there are Deferred Revenues in the amount of \$4,158,450 in the general ledger of the Community Revitalization Fund. By writing off \$43,538, the Deferred Revenues account will be reduced by that amount. There will be no impact on the General Fund.

**ENVIRONMENTAL IMPACT**

There is no environmental impact to this action.

**RECOMMENDATION**

Authorize the write-off of \$43,538, the principal balance of a HOME First Time Homebuyer Loan, made in the Placer County Community Revitalization Fund.

cc: Karin Schwab, Deputy County Counsel