

DATE: DECEMBER 6, 1999

TO: PASADENA COMMUNITY DEVELOPMENT COMMISSION

FROM: CYNTHIA KURTZ, EXECUTIVE OFFICER

**SUBJECT: PASADENA COMMUNITY DEVELOPMENT COMMISSION POLICY ON
NON-PERFORMING LOANS**

RECOMMENDATION:

It is recommended that the Pasadena Community Development Commission adopt the policy on non-performing loans included below.

POLICY:

It is the Commission policy to pursue all funds or obligations due the Commission and in so doing the following objectives are established: Limit future risks to the Commission; evaluate the cost/benefits of pursuing the funds; and achieve the development objectives of the Commission. Further, when a loan becomes delinquent, the City staff will (1) notify the borrower 15 days after the loan is defaulted, require borrower to bring account current or recommend remedy within 30 days, (2) notify the Commission 60 days after default, and (3) 90 days after default, bring to the Commission a recommendation for action based on the objectives listed above.

BACKGROUND:

In order to fulfill its mission of revitalizing the City of Pasadena by implementing redevelopment plans and providing affordable housing opportunities, the Commission has made loans to private developers and local property owners. The Commission typically is involved in financial transactions in order to stimulate investment in project areas and/or in projects that fulfill public policy objectives. These loans may have risks that the private sector may not want to assume or where the rate of return may be less than necessary to attract private sector capital. The Commission also has a program to provide first time homebuyers loans in the form of a second mortgage to enable families to purchase homes. In November of 1995 the Commission adopted a policy to address assisted affordable ownership housing. This policy is not intended to address homeownership loans. Typically, Commission loans are secured by real estate; however, the Commission's security is usually in second position (or third position) behind a first trust deed and the first trust deed is significantly larger than the Commission loan. The residual value of the property after the first is paid off will need to be analyzed in order to make a recommendation on the potential recapture of the Commission loan.

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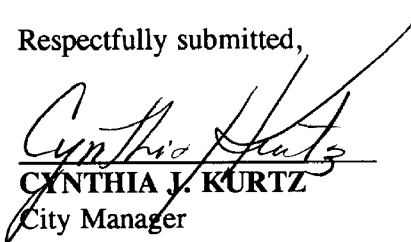
The choices of what to do in the event of a default/non-payment will vary by the loan, the security involved, and the additional investment and/or risk the Commission is willing to assume. Therefore, staff is proposing a policy for non-performing loans that includes both notification of the Commission and a staff recommendation based on the following criteria: (1) The probability of recovering all funds (principle and interest) due the Commission; (2) achieving the goals and objectives of the Commission for that particular project; and (3) limiting additional risks to the Commission.

Attached is a list of loans which are not current, Staff is formulating recommendations on each of these loans and will discuss each loan in Closed Session.

FISCAL IMPACT:

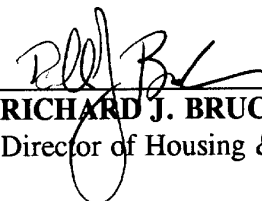
Approval of this action will assist in managing the financial resources of the Commission.

Respectfully submitted,



CYNTHIA J. KURTZ
City Manager

Prepared by:



RICHARD J. BRUCKNER
Director of Housing & Development