


M E M O R A N D U M

Date: November 7, 2012

To: Board of Directors
The Long Beach Housing Development Company

From: 
Amy J. Bodek, President

Subject: 3113 Atlantic Avenue, Unit 14 (CD 7)

RECOMMENDATIONS

1. Waive the LBHDC's option to exercise its Right of First Refusal to purchase the property located at 3113 Atlantic Avenue, Unit 14;
2. Forgive any portion of the outstanding loan balance not received from the proceeds of the sale of the property; and,
3. Authorize the President or designee to sign any documents necessary to complete the transaction.

BACKGROUND

In March 2007, the LBHDC exercised its Right of First Refusal to purchase the property at 3113 Atlantic Avenue, Unit 14, authorized staff to resell the unit to an income qualified first-time homebuyer, and approved silent subordinate mortgage assistance as required to make the unit affordable. Staff proceeded with the purchase and completed the rehabilitation work required to bring the unit up to code.

In 2008, the LBHDC held an Opportunity Drawing in the Long Beach Main Library Auditorium. The Drawing provided an opportunity for pre-qualified low- and moderate-income buyers to enter the competition for a chance to purchase the unit.

Heather Murdock (Vega) won the drawing, and purchased the unit from the LBHDC for \$215,000 in November 2008. Ms. Vega obtained a 1st Trust Deed mortgage loan in the amount of \$69,000, and provided a 1% downpayment in the amount of \$2,150. The LBHDC provided Silent Mortgage Assistance Loans totaling \$143,850; including a Second Trust Deed in the amount of \$93,850 from 20% Set-Aside funds; and a Third Trust Deed in the amount of \$50,000 from the State's CalHome Mortgage Assistance Program.

The LBHDC recorded an Agreement and Covenant Concerning Use and Resale of Restricted Units, which imposed a 30-year affordability covenant on the property. Under the covenant, the property is restricted to occupancy by an income-qualified household, and must be sold at an

affordable housing cost, should the property change ownership during the affordability period. Additionally, a Right of First Refusal to Purchase was recorded against the property, providing the LBHDC the option to purchase the unit in the event of specific "triggering" events.

On August 25th, Ms. Vega notified the LBHDC President that she needed to sell her unit due to a change in her family size. As a result of her recent marriage and impending birth of her second child, the one-bedroom unit could no longer accommodate her household. The restrictions prohibit Ms. Vega from renting her home. Subsequently, her only viable option was to sell.

Ms. Vega listed the home for sale and on October 23rd accepted an offer for \$118,000, which triggers the LBHDC's option to purchase. The LBHDC has thirty days to act on this option and notify the seller if the LBHDC will exercise or waive its right to purchase. Should the LBHDC not respond within thirty days, Ms. Vega can pursue a market sale free of the LBHDC's right to purchase. However, a subsequent buyer will assume and be bound by the Use and Resale Agreement and any other applicable agreements, covenants, and restrictions, and shall comply with all restrictions and requirements thereof.

Staff is recommending the LBHDC waive its right to purchase this unit and forgive the portion of the second mortgage loans not repaid from the proceeds of the market sale. Waiving its right to purchase will allow for a market sale and repayment of a portion of its second mortgage assistance loans from the proceeds. Below is a summary of the potential net proceeds to the LBHDC under a market sale.

Sales Price	\$118,000
1 st Trust Deed Payoff	\$ 65,976
Closing Costs	<u>\$ 9,600</u>
Net Proceeds to LBHDC	\$ 42,424

LBHDC Second Mortgage Loans	\$143,850
Net Proceeds from Sale	<u>\$ 42,424</u>
LBHDC Loan Forgiveness	\$101,426

If the LBHDC were to exercise its right to purchase, it would pay the costs to purchase the unit from Ms. Vega, complete any rehabilitation needed to bring the unit to resale condition, as well as cover the carrying and resale costs. Below is a summary of potential costs for the purchase and resale.

Purchase Price	\$66,000
Closing Costs	\$ 1,500
Carrying Costs	\$ 1,000
Rehabilitation	\$ 5,000
Resale Costs	<u>\$ 9,000</u>
Total LBHDC Costs	\$82,500

Under both scenarios, the remainder of the affordability period (approximately 26 years) will be preserved. However, waiving the right to purchase and allowing for the market sale will net approximately \$42,000 for the LBHDC and reduce the amount of the loan forgiveness to approximately \$101,000. If the LBHDC were to exercise its option to purchase, the entire \$143,840 in second mortgage loans would require forgiveness and the LBHDC would incur an additional \$82,000 in costs for the purchase and resale, not including staff costs to administer the project.

Given the recent dissolution of the Redevelopment Agency, the loss of future 20% tax increment revenues, and the uncertainty of future affordable housing funding, staff is recommending the LBHDC waive its right to purchase and avoid the costs associated with the acquisition and resale. As discussed earlier, under a market sale, the affordability period will remain in place, and the unit will continue to be included in the LBHDC's affordable housing stock for at least 26 years.

Additionally, although the market price of the unit has declined by approximately \$150,000 since 2008, the market price is now affordable to an income-qualified household and no second mortgage assistance gap financing would be required to assist a buyer with the purchase.

Should the LBHDC approve staff's recommendation, Ms. Vega will be notified of the decision and will move forward with the sale.

AJB:DLH

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