



CITY OF LONG BEACH

DEPARTMENT OF COMMUNITY DEVELOPMENT

333 WEST OCEAN BOULEVARD • LONG BEACH, CALIFORNIA 90802

R-31

February 7, 2006

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

Authorize the City Manager to prepare and execute agreements to sell loans from commercial and industrial lending programs, as may be required from time to time, to replenish the capitalization and lending capacity of these programs, following approval as to form by the City Attorney.

Authorize the City Manager to prepare and execute participation agreements and purchase options with other lenders to leverage the lending capacity of the programs, following approval as to form by the City Attorney. (Citywide)

DISCUSSION

Approval is recommended to authorize the City Manager to sell loans and enter into participation and purchase options with other lenders as part of the City's commercial and industrial lending programs.

In 1987 the City Council authorized the establishment of the Commercial and Industrial Revolving Loan Fund Program (Loan Program), which is administered by the Economic Development Bureau in the Community Development Department. The purpose of the Loan Program is to provide access to capital to retain, attract, expand and create businesses in Long Beach. Financing under the Program supplements, but does not replace, private lending. Since its inception, more than 300 loans have been funded, totaling more than \$22 million. Loans exceeding \$100,000 require authorization by the City Council.

Sales and Participation agreements will provide a method to replenish the capitalization and leverage the lending capacity of the Loan Program. As loans are made in the Loan Program, funds available for lending from the initial capitalization are diminished. To sustain the impact of the commercial and industrial lending programs, it is recommended that authorization be given to sell selected loans to maintain a desired capitalization for lending.

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Loans may be sold at par or discounted value. The price of individual loans will depend on the term, rate, nature and performance of the loan, as well as current market conditions. In selling selective loans from the portfolio, the Economic Development Bureau would seek to maximize returns by selling at or near par value. The loan sales would be made to secure adequate sources of capital for relending.

Several national organizations have created a secondary market for public sector loans by purchasing individual loans. Each loan sale agreement would vary slightly depending on the financial institution or organization that purchases a loan. Each loan sale agreement would be reviewed and approved as to form by the City Attorney prior to execution.

In addition, it is recommended authorization be granted to enter into participation agreements and purchase options with other lenders in order to leverage the impact of business lending. A participation agreement permits more than one lender to share in the funding and collateral of a loan. An example of a participation agreement would be a business requiring financing for the purchase of an industrial building. In such an example, the City would lend a portion of the financing and invite a second financial institution to lend the balance, and both the City and the second lender would share in the real estate collateral. By sharing in the funding, the City secures the financing for the business while leveraging its available funds for lending.

A purchase option allows the City to share in the funding and collateral of a loan originated by another lender. In this case, another entity would invite the City to participate in or purchase a portion of a loan.

Recapitalizing the loan programs by loan sales and leveraging loan funds through participation and purchase options with other lenders will increase access to capital to businesses in the City, extend the impact of the lending programs, and create and retain jobs.

This letter was reviewed by Assistant City Attorney Heather A. Mahood on January 25, 2006 and Budget Management Officer David Wodynski on January 27, 2006.

TIMING CONSIDERATIONS

City Council action is requested on February 7, 2006, to expedite implementation of the proposed project.

FISCAL IMPACT

There is no impact on the City's General Fund. Revenue from loan sales will be considered as program income and be returned to the respective program.

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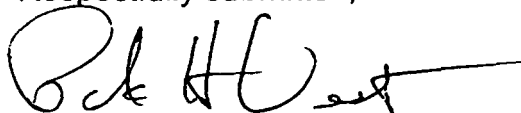
FISCAL IMPACT

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SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,



PATRICK H. WEST
DIRECTOR OF COMMUNITY DEVELOPMENT

PHW:RMS/dm7

APPROVED:

for Christine J. Shippy
GERALD R. MILLER
CITY MANAGER