

J. MICHAEL CAREY  
City Clerk

CITY OF LOS ANGELES  
CALIFORNIA



Office of the  
CITY CLERK  
Council and Public Services  
Room 615, City Hall  
Los Angeles, CA 90012  
Council File Information - (213) 485-5703  
General Information - (213) 485-5705

When making inquiries  
relative to this matter  
refer to File No.

RICHARD J. RIORDAN  
MAYOR

98-2035

August 2, 1999

Community Development Department (with file)  
Attn: Raul Gonzales, Contract Division  
City Administrative Officer  
Chief Legislative Analyst  
City Attorney  
Controller, Room 1200  
Accounting Division, F&A  
Disbursement Division  
Treasurer

RE: REQUEST TO ESTABLISH TWO FUNDS FOR THE LOS ANGELES COMMUNITY  
DEVELOPMENT BANK WITHIN THE CITY'S FINANCIAL MANAGEMENT INFORMATION  
SYSTEM

At the meeting of the Council held July 23, 1999, the following  
action was taken:

|                                   |                    |
|-----------------------------------|--------------------|
| Attached report adopted.....      | _____X_____        |
| Mayor concurred.....              | _____08-02-99_____ |
| Findings adopted.....             | _____              |
| Negative Declaration adopted..... | _____              |
| Categorically exempt.....         | _____              |
| Generally exempt.....             | _____              |

*J. Michael Carey*

City Clerk  
bem

PLACE IN FILES

SEP 23 1999

DEPUTY

steno\982038

*FF*  
*Clk*  
*9/22/99*



Mayor's Time Stamp  
**RECEIVED**  
'99 JUL 27 P2:41  
DEPUTY MAYOR

RECEIVED  
CITY CLERK'S OFFICE  
City Clerk's Time Stamp  
99 JUL 27 PM 2:29  
BY \_\_\_\_\_  
CITY CLERK  
\_\_\_\_\_  
CITY CLERK

**SUBJECT TO MAYOR'S APPROVAL**

COUNCIL FILE NO. 98-2035

COUNCIL DISTRICT NO. \_\_\_\_\_

COUNCIL APPROVAL DATE July 23, 1999

RE: REQUEST TO ESTABLISH TWO FUNDS FOR THE LOS ANGELES COMMUNITY  
DEVELOPMENT BANK WITHIN THE CITY'S FINANCIAL MANAGEMENT INFORMATION  
SYSTEM

**AUG 06 1999**

LAST DAY FOR MAYOR TO ACT \_\_\_\_\_  
(10 Day Charter requirement as per LAAC 14.7)

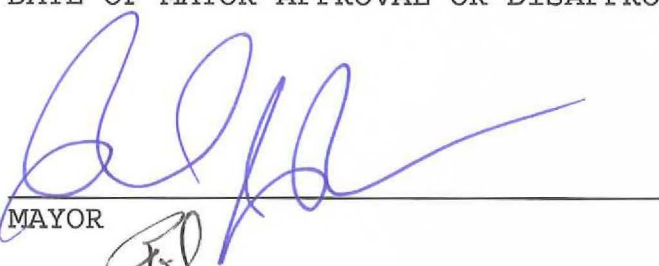
**DO NOT WRITE BELOW THIS LINE - FOR MAYOR OFFICE USE ONLY**


APPROVED

\*DISAPPROVED

\*Transmit objections in  
writing pursuant to LAAC 14.7

DATE OF MAYOR APPROVAL OR DISAPPROVAL **AUG 02 1999**

  
\_\_\_\_\_  
MAYOR

**AUG 02 1999**  


BY \_\_\_\_\_  
CITY CLERK  
\_\_\_\_\_  
CITY CLERK  
99 AUG -2 PM 2:11  
CITY CLERK'S OFFICE

TO THE COUNCIL OF THE  
CITY OF LOS ANGELES

Your COMMUNITY AND ECONOMIC DEVELOPMENT Committee

reports as follows:

Public Comments: Yes No  
XXX —

COMMUNITY AND ECONOMIC DEVELOPMENT COMMITTEE REPORT relative to a request to establish two funds for the Los Angeles Community Development Bank (LACDB) within the City's Financial Management Information System (FMIS).

Recommendation(s) for Council action, SUBJECT TO THE APPROVAL OF THE MAYOR:

1. AUTHORIZE the General Manager, Community Development Department (CDD), or designee, to prepare Controller instructions, including any technical adjustments relative to the intent of this report, subject to the approval of the City Administrative Officer (CAO), and request the Controller to implement these instructions and to expend funds upon proper demand of the General Manager of CDD.
2. AUTHORIZE the Controller to establish two interest bearing funds, establish new accounts, appropriate on an as-needed basis within the Economic Development Initiative (EDI) Grant Fund, and record journal entries of past transactions not previously processed through the City's Financial Management Information System (FMIS), pursuant to the CAO report Recommendation No. 2 attached to this report.
3. REQUEST the Los Angeles Community Development Bank (LACDB) to report on the impact of placing the EDI grant funds in the City Treasurer's accounts in its FY Annual Business Plan, due October 15, 1999.

Fiscal Impact Statement: The CAO states that establishing funds and accounts for both the Section 108 Loan Guarantees and the EDI grant funds in the City's FMIS will facilitate the tracking of assets, liabilities, income and expenditures for those grants. This action will also bring the City into compliance with the Management Letter prepared by the City's Auditor, Macias, Gini & Company, LLP, Certified Public Accountants, for fiscal year ended June 30, 1997.

SUMMARY

On July 16, 1999, a special meeting of the Community and Economic Development (CED) Committee considered CAO and CDD reports relative to a request to establish two funds for the Los Angeles Community Development Bank (LACDB) within the City's Financial Management Information System (FMIS).

CDD reported that the LACDB had been declined for the Community Development Financial Institution designation by the U.S. Treasury Department, because the Treasury Department determined that the City and County exercised too much control over the LACDB's financial operations. The LACDB believes that channeling the EDI funds through the City Treasurer's Office may reinforce the U.S. Treasury's original determination.

CDD reviewed the U.S. Treasury's determination and concluded that given the fact that the sole funding for the Bank is through the Housing and Urban Development Department and through the City of L.A., the mechanical issue of how the cash flows as a way of tracking it is not the issue, rather the issue is that the Bank has no assets other than those granted by the City. The City does control 100% of those assets and therefore CDD believes that was the reason for the loss of the designation.

The Community and Economic Development Committee concurred with the CAO recommendations and forwarded the matter to Council for its consideration.

Respectfully submitted,

COMMUNITY AND ECONOMIC DEVELOPMENT COMMITTEE

*Mike Wilson*  
\_\_\_\_\_  
*Janie Goldberg*  
\_\_\_\_\_  
\_\_\_\_\_

ATTACHMENT

CAL  
7/19/99  
#982035

**REPT.**  
**ADOPTED**

JUL 23 1999

LOS ANGELES CITY COUNCIL

MAYOR WITH FILE 14.7

LACDB's EDI grant funds be placed into the City's system in the manner CDD has requested. It is further recommended that the LACDB report on the impact of placing the EDI funds in the City Treasurer's system in its FY 2000 Annual Business Plan.

## RECOMMENDATIONS

That the City Council, subject to the approval of the Mayor:

1. Authorize the General Manager of the Community Development Department (CDD), or his designee, to prepare Controller instructions, including any technical adjustments relative to the intent of this report, subject to the approval of the City Administrative Officer (CAO), and request the Controller to implement these instructions and to expend funds upon proper demand of the General Manager of CDD;
2. Authorize the Controller to:
  - a. Establish an interest bearing fund entitled EDI Grant. This fund will track receipts and expenditures related to grants received from the federal government's Economic Development Initiative. This fund will be administered by CDD;
  - b. Establish new accounts and appropriate on an as-needed basis within the newly established EDI Grant Fund, upon request of the General Manager of CDD. The amount of the request is based on the City approved Los Angeles Community Development Bank (LACDB) Budget, and reviewed and approved by the CAO;

| Account | Title                                 | Amount                     |
|---------|---------------------------------------|----------------------------|
| NXXX    | LACDB Staff, Admin & Capital Expenses | \$ 3,710,037               |
| NXXX    | LACDB Debt Service Reserve            | 2,800,000                  |
| NXXX    | LACDB Loan Loss Reserve               | 2,300,000                  |
| NXXX    | LACDB Intermediary Compensation       | 1,074,000                  |
| NXXX    | LACDB Microloan Disbursements         | 600,000                    |
| NXXX    | LACDB Venture Capital Disbursements   | 8,000,000                  |
| NXXX    | LACDB Technical Assistance            | 2,000,000                  |
| NXXX    | LACDB CDO Equity Program              | 2,000,000                  |
|         | <b>Total</b>                          | <b><u>\$22,484,037</u></b> |

- c. Establish an interest bearing fund entitled LACDB Section 108 Loan Guarantee to track receipts and expenditures of this loan program, to be administered by CDD;

(Recommendations continued)



- d. Establish a new account entitled LACDB Section 108 Loans within the newly created LACDB Section 108 Loan Guarantee fund and appropriate on an as-needed basis upon the request of the General Manager of CDD. The amount of the request shall be based on the City approved LACDB Budget and subject to review and approval by the CAO;
  - e. Record journal entries of past transactions that were not processed through the City's Financial Management Information System (FMIS) upon the request of the General Manager of CDD.
4. Request the LACDB to report on the impact of placing the EDI grant funds in the City Treasurer's accounts in its FY 2000 Annual Business Plan, due October 15, 1999.

### **Fiscal Impact Statement**

Establishing funds and accounts for both the Section 108 Loan Guarantees and the Economic Development Initiative (EDI) grant funds in the City's Financial Management Information System (FMIS) will facilitate the tracking of assets, liabilities, income and expenditures for those grants. This action will also bring the City into compliance with the Management Letter prepared by the City's Auditor, Macias, Gini & Company, LLP, Certified Public Accountants, for fiscal year that ended June 30, 1997.

JOS:rib

33588d05



COUNCIL VOTE

23-Jul-99 10:49:34 AM, #3

Items for Which Public Hearings Have Been Held - Items 1-6

Voting on Item(s):

Roll Call

|               |     |
|---------------|-----|
| BERNSON       | Yes |
| CHICK         | Yes |
| FEUER         | Yes |
| GALANTER      | Yes |
| GOLDBERG      | Yes |
| HERNANDEZ     | Yes |
| HOLDEN        | Yes |
| MISCIKOWSKI   | Yes |
| PACHECO       | Yes |
| PADILLA       | Yes |
| RIDLEY-THOMAS | Yes |
| SVORINICH     | Yes |
| WACHS         | Yes |
| WALTERS       | Yes |
| *FERRARO      | Yes |

Present: 15, Yes: 15 No: 0

5

COMMUNITY AND ECONOMIC DEVELOPMENT COMMITTEE  
Report/Communication for Signature

Council File Number 98-2035

Committee Meeting Date 7-19-99

Council Date 7-23-99

| COMMITTEE MEMBER               | YES | NO | ABSENT |
|--------------------------------|-----|----|--------|
| COUNCILMEMBER HERNANDEZ, Chair | ✓   |    |        |
| COUNCILMEMBER GOLDBERG         | ✓   |    |        |
| COUNCILMEMBER RIDLEY-THOMAS    |     |    |        |

Remarks estab. 2 funds in FMIS for LACOB

Cynthia Landis, Legislative Assistant ♦♦♦ Telephone 485-5733

**COMMUNITY AND ECONOMIC DEVELOPMENT COMMITTEE**

SUGGESTED NOTIFICATION OF COUNCIL ACTION

Council File No. 98-2035

- Council Member(s) \_\_\_\_\_
- Interested Department \_\_\_\_\_
- Mayor (with/without file) \_\_\_\_\_
- Chief Legislative Analyst \_\_\_\_\_
- City Administrative Officer \_\_\_\_\_
- Controller \_\_\_\_\_
- City Clerk \_\_\_\_\_
- Treasurer \_\_\_\_\_
- City Attorney (with / without file) \_\_\_\_\_
- General Services Department \_\_\_\_\_
- Department of Transportation \_\_\_\_\_
- City Planning Department \_\_\_\_\_
- Community Development Dept. (with file) -Contract Div. Attn:Raul Gonzales
- Community Redevelopment Agency \_\_\_\_\_
- Board of Public Works \_\_\_\_\_
- Private Industry Council \_\_\_\_\_
- \_\_\_\_\_
- \_\_\_\_\_
- \_\_\_\_\_



CITY ADMINISTRATIVE OFFICER

*Me*

|   |                        |  |
|---|------------------------|--|
| <b>TO</b><br>The Mayor<br>The Council   | <b>DATE</b><br>4-30-99 | <b>CAO FILE No.</b><br>0220-03251-0016 |
| <b>REFERENCE</b><br>Communication from the Community Development Department dated March 12, 1999  |                        | <b>COUNCIL FILE No.</b><br>98-2035     |
| <b>SUBJECT</b><br>Request to establish two funds for the Los Angeles Community Development Bank within the City's Financial Management Information System |                        | <b>COUNCIL DISTRICT</b>                |

**SUMMARY**

The Community Development Department (CDD) requests authority to establish two funds within the City's Financial Management Information System (FMIS) to enable the City to better track the funds the Los Angeles Community Development Bank (LACDB) receives from the United States Department of Housing and Urban Development (HUD). One fund would be established to track the Section 108 Loan Guarantee transactions and the other fund would be established to track the Economic Development Initiative (EDI) grant transactions. At present, the City tracks this information manually. Because the number of transactions the LACDB undertakes is steadily increasing, the potential for errors during the manual recording of these transactions also increases.

In its Management Letter to the City for the fiscal year ending June 30, 1997, the City's Auditor, Macias, Gini & Company, LLP, Certified Public Accountants (MG), stated that the City should record all financial transactions related to the LACDB's Section 108 Loan and EDI grant programs in FMIS to ensure financial control and for reporting purposes. MG further stated that the detailed accounting data are not monitored by CDD and that there are no internal verification processes in place to address potential errors. According to MG, the City is required to report to HUD on both the EDI and Section 108 Loan financial transactions in the City's financial statements, the Schedule of Expenditures of Federal Awards in the Single Audit Report and in the Annual Grantee Performance Report.

Based on its review, MG recommends and the Controller concurs that CDD should obtain authorization from the Mayor and Council to establish two new funds within FMIS to track the Section 108 Loan and EDI grant receipts and disbursements, set up the necessary accounts within FMIS to record current and past program transactions and appropriate funds for various program related expenditures. In response to the management report, CDD requests authority to establish the two new funds within FMIS.

(Summary continued)

  
 ACTING CITY ADMINISTRATIVE OFFICER

RECEIVED  
 CITY CLERK'S OFFICE  
 99 MAY -3 AM 8:08  
 BY \_\_\_\_\_  
 CITY CLERK  
 DEPUTY



Although MG recommended that CDD handle both the Section 108 loan and EDI requests the same way, CDD reports that it will record the financial transactions of the two programs differently. The Section 108 Loan Program transactions will be recorded in FMIS after the transaction has occurred through the journal voucher entry system. Because the Section 108 loan transactions are time sensitive and because interest is charged from the point of the draw down, CDD agreed to this method. After requesting Section 108 loan funds from HUD, the loan funds will be deposited directly into and disbursed from a designated bank account outside of the City Treasurer's system. CDD states that this method is the fastest way to move the Section 108 loan funds. The EDI grant funds, however, will be deposited into and disbursed from the City's bank account and will be maintained by the City Treasurer's Office. Under the current process for handling EDI transactions, the drawdown takes three days. Under the proposed process, the EDI transactions will take four to five days. However, CDD reports that because these are grant funds, interest is not charged upon draw down and the LACDB can plan for the additional day or two that the grant transactions may take.

### **The LACDB Response to the Audit Findings**

The LACDB reports that although it concurs that its financial transactions should be included in the FMIS system, the LACDB would like the EDI transactions to be handled in the same manner as the Section 108 loan transactions, through journal voucher entries after the transaction has occurred. The LACDB is concerned that the City's unfamiliarity with their transactions may cause funding delays.

The LACDB further reports that it was declined the Community Development Financial Institution designation by the United States Treasury Department because the Treasury Department determined that the City and County exercised too much control over the LACDB's financial operations. Although the LACDB has appealed this decision, the LACDB reports this designation is crucial to its program because it allows commercial banks to receive additional Community Reinvestment Act credit when partnered with the LACDB and enables the LACDB to leverage public funds with private funds in the Empowerment Zone. LACDB believes that channeling the EDI funds through the City Treasurer's Office may reinforce the U.S. Treasury's original determination.

The LACDB has also expressed concern that use of the City Treasurer's accounts may blur the lines between the LACDB's semi-autonomy and the City's oversight. The LACDB believes that this blurring of authority may raise the perception that the LACDB is another City department instead of being governed by its own, separate board of directors.

Although we believe that the LACDB may have legitimate concerns about placing the EDI grant directly into the City's system, our greater concern is that the City have the financial controls in place to record transactions, in accordance with the MG audit. Because the time difference between the current and proposed systems for EDI transactions is minimal, it is therefore recommended that the

(Summary continued)



LACDB's EDI grant funds be placed into the City's system in the manner CDD has requested. It is further recommended that the LACDB report on the impact of placing the EDI funds in the City Treasurer's system in its FY 2000 Annual Business Plan.

## RECOMMENDATIONS

That the City Council, subject to the approval of the Mayor:

1. Authorize the General Manager of the Community Development Department (CDD), or his designee, to prepare Controller instructions, including any technical adjustments relative to the intent of this report, subject to the approval of the City Administrative Officer (CAO), and request the Controller to implement these instructions and to expend funds upon proper demand of the General Manager of CDD;
2. Authorize the Controller to:
  - a. Establish an interest bearing fund entitled EDI Grant. This fund will track receipts and expenditures related to grants received from the federal government's Economic Development Initiative. This fund will be administered by CDD;
  - b. Establish new accounts and appropriate on an as-needed basis within the newly established EDI Grant Fund, upon request of the General Manager of CDD. The amount of the request is based on the City approved Los Angeles Community Development Bank (LACDB) Budget, and reviewed and approved by the CAO;

| Account | Title                                 | Amount                     |
|---------|---------------------------------------|----------------------------|
| NXXX    | LACDB Staff, Admin & Capital Expenses | \$ 3,710,037               |
| NXXX    | LACDB Debt Service Reserve            | 2,800,000                  |
| NXXX    | LACDB Loan Loss Reserve               | 2,300,000                  |
| NXXX    | LACDB Intermediary Compensation       | 1,074,000                  |
| NXXX    | LACDB Microloan Disbursements         | 600,000                    |
| NXXX    | LACDB Venture Capital Disbursements   | 8,000,000                  |
| NXXX    | LACDB Technical Assistance            | 2,000,000                  |
| NXXX    | LACDB CDO Equity Program              | 2,000,000                  |
|         | <b>Total</b>                          | <b><u>\$22,484,037</u></b> |

- c. Establish an interest bearing fund entitled LACDB Section 108 Loan Guarantee to track receipts and expenditures of this loan program, to be administered by CDD;

(Recommendations continued)



- d. Establish a new account entitled LACDB Section 108 Loans within the newly created LACDB Section 108 Loan Guarantee fund and appropriate on an as-needed basis upon the request of the General Manager of CDD. The amount of the request shall be based on the City approved LACDB Budget and subject to review and approval by the CAO;
  - e. Record journal entries of past transactions that were not processed through the City's Financial Management Information System (FMIS) upon the request of the General Manager of CDD.
4. Request the LACDB to report on the impact of placing the EDI grant funds in the City Treasurer's accounts in its FY 2000 Annual Business Plan, due October 15, 1999.

### **Fiscal Impact Statement**

Establishing funds and accounts for both the Section 108 Loan Guarantees and the Economic Development Initiative (EDI) grant funds in the City's Financial Management Information System (FMIS) will facilitate the tracking of assets, liabilities, income and expenditures for those grants. This action will also bring the City into compliance with the Management Letter prepared by the City's Auditor, Macias, Gini & Company, LLP, Certified Public Accountants, for fiscal year that ended June 30, 1997.

JOS:rib

33588d05



J. MICHAEL CAREY  
City Clerk

When making inquiries  
relative to this matter  
refer to File No.

CITY OF LOS ANGELES  
CALIFORNIA



RICHARD J. RIORDAN  
MAYOR

Office of the  
CITY CLERK  
Council and Public Services  
Room 615, City Hall  
Los Angeles, CA 90012  
Council File Information - (213) 485-5703  
General Information - (213) 485-5705

98-2035

March 25, 1999

COMMUNITY & ECONOMIC DEVELOPMENT COMMITTEE

In accordance with Council Rules, communication from the Community Development Department (CDD) relative to establishing funds for the Community Development Bank's Section 108 Loan Guarantee and the Economic Development Initiative Programs in the City's Financial Management Information System, was referred on March 24, 1999, to the COMMUNITY & ECONOMIC DEVELOPMENT COMMITTEE.

*J. Michael Carey*

City Clerk  
amm



  
PARKER C. ANDERSON  
GENERAL MANAGER

CITY OF LOS ANGELES  
CALIFORNIA

AB-2035  
COMMUNITY DEVELOPMENT  
DEPARTMENT  
215 W. 6TH STREET  
LOS ANGELES, CA 90014



RICHARD J. RIORDAN  
MAYOR

CF-98-2035

MAR 12 1999

Council File: New  
Council District No.:  
Contact Person & Extension  
Jasper Williams Ext. 5-2952  
Industrial and Commercial  
Development Division

BY CITY  
99 MAR 15 11:00  
CITY CLERK'S OFFICE

Honorable Richard J. Riordan  
Mayor, City of Los Angeles  
Room 305, City Hall

Los Angeles City Council  
c/o City Clerk's Office  
Room 395, City Hall

Attention: June Lagmay, Legislative Coordinator

**COMMITTEE TRANSMITTAL: AUTHORITY TO ESTABLISH FUNDS FOR THE  
COMMUNITY DEVELOPMENT BANK'S (CDB) SECTION 108 LOAN GUARANTEE  
AND THE ECONOMIC DEVELOPMENT INITIATIVE (EDI) PROGRAMS IN THE  
CITY'S FINANCIAL MANAGEMENT INFORMATION SYSTEM (FMIS)**

**DEADLINE FOR MAYOR'S ACTION**

This item needs to be expedited through the Community and Economic Development Committee at the next scheduled meeting to be considered concurrently with the Community Development Bank report. The City Council in its action of February 10, 1999 instructed the Community Development Bank to report back within 30 days establishing a deadline date of March 12, 1999.

**RECOMMENDATION**

The General Manager of the Community Development Department (CDD) requests that:

1. Your office process this transmittal through the appropriate City Council Committee and the City Council for review and approval;
2. The City Council authorize the General Manager of CDD, or his designee, to prepare Controller instructions, subject to the CAO's approval, including any technical adjustments relative to the intent of this report, and the City Council request the Controller to implement these instructions and to expend funds upon proper demand of the General Manager of CDD;

COMMUNITY & ECON DEV

MAR 24 1999

3. The City Council authorize the Controller:

- a. Establish an interest bearing fund entitled 'EDI Grant'. This fund will track receipts and expenditures related to grants received from the Federal government's Economic Development Initiative. This fund will be administered by the Community Development Department.
- b. Establish new accounts and appropriate on an as needed basis within the newly established "EDI Grant" fund upon request of the General Manager of CDD. Amount of request is based on City approved LACDB Budget reviewed and approved by CAO.

| <u>Account</u> | <u>Title</u>                          | <u>Amount</u> |
|----------------|---------------------------------------|---------------|
| NXXX           | LACDB Staff, Admin & Capital Expenses | \$3,710,037   |
| NXXX           | LACDB Debt Service Reserve            | 2,800,000     |
| NXXX           | LACDB Loan Loss Reserve               | 2,300,000     |
| NXXX           | LACDB Intermediary Compensation       | 1,074,000     |
| NXXX           | LACDB Microloan Disbursements         | 600,000       |
| NXXX           | LACDB Venture Capital Disbursements   | 8,000,000     |
| NXXX           | LACDB Technical Assistance            | 2,000,000     |
| NXXX           | LACDB CDO Equity Program              | 2,000,000     |

- c. Establish an interest bearing fund entitled "LACDB Sec 108 Loan Guarantee" to track receipts and expenditures of this loan program, to be administered by CDD.
- d. Establish new account entitled 'LACDB Sec 108 Loans' within the newly created 'LACDB Sec 108 Loan Guarantee' fund and appropriate on an as needed basis upon request of the General Manager of CDD. The amount of request shall be based on City approved LACDB Budget and subject to review and approval by CAO.
- e. Record journal entries of past transactions that were not processed thru the City's FMIS upon request of the General Manager of CDD.

4. The Mayor concur with action of the City Council

**BACKGROUND**

A February 23, 1999 report by Macias, Gini and Company (CPA) on the "Condition Relative to EDI and Section 108 Loans" recommended that the City establish two new funds for the Section 108 Loan Guarantee and EDI programs to track the receipts and disbursements, set up the necessary accounts in FMIS to record current and past program transactions, and appropriate funds for various

program related expenditures. The CDD administers the Section 108 Loan Guarantee and EDI programs and currently tracks its financial transactions manually. The authority to establish the funds and set up the accounts would facilitate the tracking of these transactions by FMIS including the assets, liabilities, income, and expenditures pertaining to the two programs. It is expected that this transmittal requesting the establishment of Section 108 Loan and EDI Funds in FMIS will be scheduled and heard concurrently with the Community Development Bank report. The City Council instructed the Community Development Bank on February 10, 1999 to report on its loan operations and job creation activities within thirty (30) days from this date.

### **SUMMARY**

The report by Macias, Gini and Company outlines the advantages of establishing funds for the Section 108 Loan and EDI programs in the City's FMIS. Under the present system drawdowns against the Section 108 Loan and EDI programs are directly deposited to the Community Development Bank's account - the corresponding revenue and expenditures, however, are not recorded in the City's FMIS. These financial transactions need to be recorded in FMIS for proper control, tracking, and reporting purposes.

The City has adopted a policy of recording its financial transactions in accordance with Generally Accepted Accounting Principles (GAAP). To comply with this requirement, City departments, on an annual basis, are required to accrue revenues and expenses, record known assets, liabilities and any transaction that may affect the financial condition of the City. The City is also required to report these financial transactions in the Annual Grantee Performance Report and the Schedule of Expenditures of Federal Awards in the Single Audit Report.

Ideally, all financial transactions should be recorded in the City's FMIS as they occur ("real time"). This means that a disbursement should be recorded as soon as the check is prepared by the Controller's Office or a deposit should be recorded as soon as a cash drawdown is received by the City Treasury. This real time recording will largely minimize reconciliation, provide better internal control and up-to-date grant reporting. It will also facilitate the preparation of the City's financial statements and schedules for the Single Audit.

Currently, the Section 108 Loan Program and Economic Development Initiative funds drawn by the Community Development Bank through the City of Los Angeles are deposited to a designated bank account outside of the City Treasurer system. Deposits and disbursements are recorded in the Bank's financial statements. To comply with the GAAP requirement, transactions are recorded in the City's Financial Management Information System (FMIS) only at the end of the fiscal year using journal vouchers. Information is either derived from the Bank's financial statements or the Bank's financial staff. Consequently, this increases the risk of making errors since detailed accounting data are not automatically entered in the FMIS. The manual accounting and recording process currently used also imposes inaccuracy and delays in the internal reconciliation process and causes unnecessary discrepancies in the transaction amounts recorded in the City's financial statements.

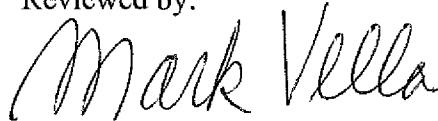
The establishment of Section 108 Loan Fund in the City's automated fiscal system will allow the City to record the Section 108 financial transactions of the Community Development Bank in FMIS by using journal vouchers. Because of the Community Development Bank's concern over the time-sensitive nature of loan transactions and the necessity to move cash as fast as possible for maximum utilization, CDD originally agreed to the "after-the-fact" recording rather than using real time on-line processing in FMIS. The Community Development Bank would still continue to deposit funds directly to a designated bank account and then disburse them from this same account outside of the City Treasurer system. The Economic Development Initiative Grant (EDI) would be recorded in FMIS in accordance with the auditor's recommendation. All cash drawdowns and disbursements will be through the City's bank account to be maintained by the Treasurer's Office to provide better control and up-to-date grant reporting and to minimize the need for reconciliation. A Council approval of the recommendations outlined in the report to establish Section 108 Loan and EDI funds in the FMIS would achieve these objectives for both programs by requiring the cash to flow through the City system.

Prepared by:



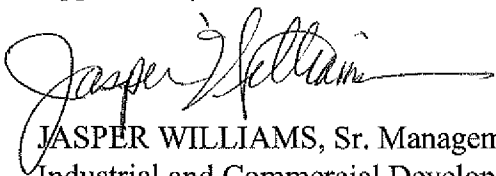
Sylvia Kim  
Management Analyst

Reviewed by:



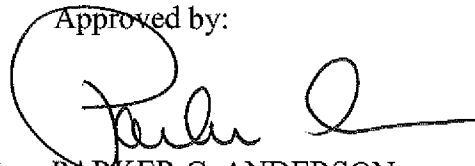
Mark Vella  
Finance Officer

Approved by:



JASPER WILLIAMS, Sr. Management Analyst  
Industrial and Commercial Development

Approved by:



PARKER C. ANDERSON  
General Manager

PCA:JW:MV

*cdb1083*



RICHARD J. RIORDAN  
MAYOR

February 23, 1999

Kenneth A. Macias, Managing Partner  
Macias, Gini and Company, CPAs  
515 South Figueroa Street, Suite 1240  
Los Angeles, CA 90071

Attention: Rima Abdul-Latif

**RESPONSE TO AUDIT FOLLOW UP - MANAGEMENT LETTER FY 96-97**

This is to report on the status of the auditor's recommendation relative to conditions reported during fiscal year 1996-97:

**CONDITION RELATIVE TO EDI AND SECTION 108 LOANS**

(Please see attached copy of detail of Condition)

**Recommendation**

CDD should expedite obtaining authorization from City Council to establish two new funds to track the receipts and disbursements of the EDI and Section 108 Loan Guarantee programs, set up the necessary accounts in FMIS to record current and past program transactions, and appropriate funds for various program related expenditures.

**Management Response**


The Section 108 Loan Program handled by Industrial Commercial Division of CDD, the financial transactions of which are currently tracked manually, will be tracked in FMIS as soon as CDD obtains Mayor and Council authorization. The transmittal is now being prepared for submission.


The financial transactions of the Section 108 Loan Program of the Community Development Bank will be recorded in FMIS after the event by utilizing journal vouchers. The Community Development Bank will continue to deposit directly to and disburse from the designated bank account outside of the City Treasurer system. CDD agreed to the "after-the-fact" recording of transactions as opposed to FMIS because loan transactions are time sensitive. It is crucial that cash is moved in the fastest manner for maximum utilization.

The Economic Development Initiative Grant (EDI), also currently tracked manually, will be recorded in FMIS in accordance with auditor's recommendation. Cash drawdowns and disbursements will be through the City's bank account to be maintained by Treasurer's Office. This will provide better control, up-to date grant reporting and minimize need for reconciliation.

The Community Development Bank was instructed on February 10, 1999 by City Council to report on its loan operations and job creation activities within thirty (30) days from said date. Community Development Department will prepare a transmittal dealing with the creation of Economic Development Initiative (EDI) Fund in FMIS. We are hoping that this report will be scheduled and heard concurrently with the Community Development Bank report.

Please call Mae Abeleda at (213)485-0298 if you have any questions.

  
PARKER C. ANDERSON  
General Manager

  
c: Bill Lamb/Controller  
Robert Kemp/CDB  
Jasper Williams/CDD ✓

edirespond/mae

CITY OF LOS ANGELES  
MANAGEMENT LETTER  
FOR THE FISCAL YEAR ENDED JUNE 30, 1997

DRAFT

FIXED ASSETS INVENTORY SYSTEMS (CONTINUED)

CONDITION (CONTINUED)

supported by adequate property records, and physical inventories must be taken at least once every two years to ensure that assets exist and are in use. Currently, these required physical inventory counts are not being conducted for all the City's fixed assets inventory systems within the required time period.

RECOMMENDATION

The City, in conjunction with the various departments, should update the fixed assets inventory systems on an ongoing basis to account for all equipment and vehicles owned by the City. The City should also perform physical counts of its fixed assets at least once every two years, as required by OMB Circular A-87, and reconcile these counts to the fixed assets inventory systems to ensure proper accountability and safeguarding of these assets. Additionally, the City, on at least an annual basis, should reconcile the additions to these inventory systems to the equipment expenditures per the Financial Management Information System (FMIS), including fixed assets acquired by the Municipal Improvement Corporation of Los Angeles. Documentation of these physical counts and reconciliations should be maintained by the responsible departments.

MANAGEMENT RESPONSE

\* EDI AND SECTION 108 LOANS - COMMUNITY DEVELOPMENT DEPARTMENT

CONDITION

The Community Development Department (CDD) has not yet obtained authority from the City Council to set-up the L.A. Community Development Bank's Economic Development Initiative (EDI) Grant and Section 108 Loan Guarantee Program accounts in the City's Financial Management Information System (FMIS) to facilitate the tracking of assets, liabilities, income and expenditures pertaining to these grants. CDD has

CITY OF LOS ANGELES  
MANAGEMENT LETTER  
FOR THE FISCAL YEAR ENDED JUNE 30, 1997

DRAFT

EDI AND SECTION 108 LOANS - COMMUNITY DEVELOPMENT  
DEPARTMENT (CONTINUED)

CONDITION (CONTINUED)

prepared a transmittal to City Council requesting the establishment of two funds to track the receipts and disbursements of these two grants, however, this transmittal has not been submitted to City Council for approval yet.

Draw downs against the EDI and Section 108 Loan Guarantee Program started in fiscal year 95/96 and increased in fiscal year 96/97. Such draw downs are directly deposited to the Community Development Bank's accounts. The corresponding revenue and expenditures are not recorded in the City's FMIS system. It is necessary to record all financial transactions related to these programs in FMIS for proper control and reporting purposes. Both EDI and Section 108 Loan funds are required to be reported to the U.S. Department of Housing and Urban Development (HUD) in the Annual Grantee Performance Report. In addition, the financial transactions of these programs are required to be reported in the City's financial statements and the Schedule of Expenditures of Federal Awards in the Single Audit Report. Currently, all accounting is performed manually by the Industrial Commercial Division at CDD, and journal entries are made through the Controller's GAAP Division. Since the detailed accounting data are not automatically included in FMIS and not monitored by the Accounting Division of CDD, the risk of making errors in recording key program accounting data is increased. The manual accounting and recording process currently utilized by CDD for EDI and Section 108 Loan Guarantee programs imposes no internal verification process and can cause misstatements in these programs' amounts recorded in the City's financial statements.

RECOMMENDATION

CDD should expedite obtaining authorization from City Council to establish two new funds to track the receipts and disbursements of the EDI and Section 108 Loan Guarantee programs, set up the necessary accounts in FMIS to record current and past program transactions, and appropriate funds for various program related expenditures.

J. MICHAEL CAREY  
City Clerk

# CITY OF LOS ANGELES

CALIFORNIA



Office of the  
**CITY CLERK**  
Council and Public Services  
Room 615, City Hall  
Los Angeles, CA 90012  
Council File Information - (213) 485-5703  
General Information - (213) 485-5705

When making inquiries  
relative to this matter  
refer to File No.

PLACE IN FILES RICHARD J. RIORDAN  
MAYOR

98-2035

FEB 08 1999  
DEPUTY

December 23, 1998

Community Development Department (with file)  
Contract Division, Attn: Raul Gonzales  
Chief Legislative Analyst  
City Administrative Officer  
City Attorney

Bill Minson  
3416 Manning Avenue, Suite 2703  
Los Angeles, CA 90064

RE: LOS ANGELES COMMUNITY DEVELOPMENT BANK BUSINESS PLAN FOR THE PERIOD  
JANUARY 1, 1999 THROUGH DECEMBER 31, 1999

At the meeting of the Council held December 8, 1998, the following  
action was taken:

|   |                 |
|---|-----------------|
| Attached report adopted .....                               | _____           |
| Attached motion () .....                                    | _____           |
| Attached resolution adopted () .....                        | _____           |
| Mayor concurred.....  | <u>12-17-98</u> |
| FORTHWITH.....  | _____           |
| Ordinance adopted.....                                      | _____           |
| Motion adopted to approve attached report.....              | _____           |
| Motion adopted to approve communication recommendation..... | <u>X</u>        |
| To the Mayor FORTHWITH.....                                 | _____           |
| Ordinance Number.....                                       | _____           |
| Publication date.....                                       | _____           |
| Effective date.....   | _____           |
| Mayor vetoed.....   | _____           |

*J. Michael Carey*

City Clerk  
aff  
steno\

*J. Cost 2/5/99*

Mayor's Time Stamp

City Clerk's Time Stamp

RECEIVED  
CITY CLERK'S  
98 DEC 10 AM 8  
BY CITY CLERK  
DEPUTY

RECEIVED

'98 DEC 10 A8:20

SUBJECT TO MAYOR'S APPROVAL

COUNCIL FILE NO. 98-2035

COUNCIL DISTRICT NO. \_\_\_\_\_

DEPUTY MAYOR

COUNCIL APPROVAL DATE December 8, 1998

RE: LOS ANGELES COMMUNITY DEVELOPMENT BANK BUSINESS PLAN FOR THE PERIOD  
JANUARY 1, 1999 THROUGH DECEMBER 31, 1999

RECEIVED  
CITY CLERK'S OFFICE  
98 DEC 18 AM 7:02  
BY CITY CLERK  
DEPUTY

LAST DAY FOR MAYOR TO ACT

DEC 21 1998

(10 Day Charter requirement as per Charter Section 354)

DO NOT WRITE BELOW THIS LINE - FOR MAYOR OFFICE USE ONLY

~~APPROVED~~

\*DISAPPROVED

\*Transmit objections in writing pursuant to Charter Section 354

DATE OF MAYOR APPROVAL OR DISAPPROVAL

DEC 17 1998

DEC 18 1998

MAYOR

41  
Del 8, 1998

COMMUNICATION

TO CITY CLERK FOR PLACEMENT ON NEXT  
REGULAR COUNCIL AGENDA TO BE POSTED #57

TO: LOS ANGELES CITY COUNCIL

File No. 98-2035

FROM: COUNCIL MEMBER MIKE HERNANDEZ, Chair  
COMMUNITY AND ECONOMIC DEVELOPMENT COMMITTEE

NOV 24 1998

Public Comments Yes No  
                                  \_\_\_ XX

COMMUNICATION FROM CHAIR, COMMUNITY AND ECONOMIC DEVELOPMENT COMMITTEE relative to submission of Los Angeles Community Development Bank Business Plan for January 1, 1999 through December 31, 1999.

Recommendations for Council action, SUBJECT TO THE APPROVAL OF THE MAYOR:

1. INSTRUCT the Los Angeles Community Development Bank (LACDB) to fund the debt service reserves for the Supplemental 108 Funds with Community Development Block Grant (CDBG) funds, instead of Section 108 funds, as proposed by the LACDB.
2. AFFIRM that the 1999 Business Plan includes the expenditure of CDBG funds which the City Council and Mayor previously approved in the Comprehensive Agreement.
3. ADOPT the LACDB recommendation to increase staffing from 34 to 36 positions, as contained within the LACDB Business Plan dated October 15, 1998.
4. APPROVE the attached LACDB Business Plan dated October 15, 1998, subject to the above recommendations.
5. AUTHORIZE the General Manager of the Community Development Department (CDD), as the City's authorized representative, to draft and execute, with the assistance of the City Attorney, any amendments to the Comprehensive Agreement between the City and the LACDB that are required in order to carry out the above recommendations.
6. INSTRUCT the City Administrative Officer (CAO) and CDD to report back by December 31, 1998, on ways to expand the LACDB's abilities to make loans outside of the Empowerment Zones.

Fiscal Impact Statement: The CAO, Chief Legislative Analyst (CLA), and CDD state that the LACDB is funded with grants and proceeds from trust certificate sales backed by federal loan guarantees. While LACDB financial activities have no direct effect on the City's General Fund, the City's allocation of future CDBG funds serves as the ultimate security for the bonds. If the LACDB experiences major defaults on its bond interest or principal obligations, the City would realize those losses in the form of reduced future federal block grant allocations. In addition, the City's General Fund may be liable for the reimbursement of any disallowed costs in accordance with current federal policies which prohibit the use of federal funds to repay those costs.

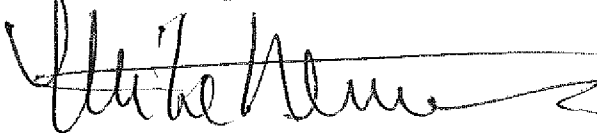
**SUMMARY:**

On November 16, 1998, the Chair of the Community and Economic Development Committee considered the submission of Los Angeles Community Development Bank Business Plan for January 1, 1999 through December 31, 1999.

The CAO reported that as far as job creation it has been exceeding the LACDB's projections, but loan performance is under 1998 projections, but in comparison with Peer Banks, it is growing at a quick rate. In addition, the CAO recommended that CDBG funds be used for debt service reserves and that other sources of funding be found for the future, especially sine CDBG funds are insufficient in the long run.

The LACDB reported that it is experiencing geographic concentration risk by having all its loans in the EZ and it would like to diversify the risk by obtaining better quality loans from eligible census tracts throughout the City. After discussion on the possible use of 108 program funds and the use of tax increments, the Chair instructed the CAO and CDD to come back with a report on other options that would permit the LACDB to lend outside the Zone by the end of 1998. In the interim, the Chair of the Community and Economic Development Committee concurred with CAO recommendations and forwarded the matter to Council.

Respectfully submitted,



COUNCIL MEMBER MIKE HERNANDEZ, Chair  
Community and Economic Development Committee

MOTION ADOPTED TO APPROVE COMMUNICATION RECOMMENDATION

CAL  
11/18/98  
#982035

**ADOPTED**

DEC 08 1998

LOS ANGELES CITY COUNCIL

COUNCIL VOTE

08-Dec-98 11:03:27 AM, #11

ITEM NO. (41)

Voting on Item(s): 41

Roll Call

|               |        |
|---------------|--------|
| VACANT        | Absent |
| ALATORRE      | Yes    |
| BERNSON       | Yes    |
| CHICK         | Yes    |
| FEUER         | Yes    |
| GALANTER      | Absent |
| GOLDBERG      | Absent |
| HERNANDEZ     | Absent |
| HOLDEN        | Yes    |
| MISCIKOWSKI   | Yes    |
| RIDLEY-THOMAS | Yes    |
| SVORINICH     | Yes    |
| *WACHS        | Yes    |
| WALTERS       | Yes    |
| FERRARO       | Absent |

Present: 10, Yes: 10 No: 0

**COMMUNITY AND ECONOMIC DEVELOPMENT COMMITTEE**

**SUGGESTED NOTIFICATION OF COUNCIL ACTION**

Council File No. 98-2015

- Council Member(s) \_\_\_\_\_
- Interested Department \_\_\_\_\_
- Mayor (with/without file) \_\_\_\_\_
- Chief Legislative Analyst \_\_\_\_\_
- City Administrative Officer \_\_\_\_\_
- Controller \_\_\_\_\_
- City Clerk \_\_\_\_\_
- Treasurer \_\_\_\_\_
- City Attorney (with / without file) \_\_\_\_\_
- General Services Department \_\_\_\_\_
- Department of Transportation \_\_\_\_\_
- City Planning Department \_\_\_\_\_
- Community Development Dept. (with file) - Contract Div. Attn: Raul Gonzales
- Community Redevelopment Agency \_\_\_\_\_
- Board of Public Works \_\_\_\_\_
- Private Industry Council \_\_\_\_\_
- \_\_\_\_\_
- \_\_\_\_\_
- \_\_\_\_\_

**CITY OF LOS ANGELES**  
INTER-DEPARTMENTAL CORRESPONDENCE

0220-03251-0015

Date: *November 13, 1998*

To: Richard J. Riordan, Mayor  
The Council

From: Keith Comrie, City Administrative Officer *KBC by mfr*

Ronald F. Deaton, Chief Legislative Analyst *RFD*

Parker C. Anderson, General Manager *Parker Anderson*  
Community Development Department

Subject: **LOS ANGELES COMMUNITY DEVELOPMENT BANK BUSINESS PLAN FOR THE PERIOD OF JANUARY 1, 1999 THROUGH DECEMBER 31, 1999.**

### Summary

On October 15, 1998, the President and Chief Executive Officer of the Los Angeles Community Development Bank (LACDB) submitted the LACDB's proposed 1999 Business Plan to the City Council and the Mayor for review and approval. In accordance with the LACDB's 1997 Business Plan recommendation, the LACDB now submits its Business Plan in October to be effective the following January 1st (C.F. 94-2167-S4).

Based on the LACDB's total loan activity from its opening in 1996 to date of \$46.8 million, the LACDB's clients are contracted to create/retain a total of 1,378 jobs. The LACDB projects the scheduled time line for job creation/retention by June 30, 1998 at 434 positions. However, the LACDB's clients have already created/retained 682 positions by June 30th, exceeding the LACDB's projections by 247 jobs or 57 percent. Of the actual jobs created/retained, 132 or 19 percent are occupied by residents within the LAEZ.

For the period of January 1 through November 5, 1998, the LACDB has funded 34 loans for a total of \$20.3 million. This includes 17 microloans (\$0.3 million), 12 business loans (\$9.6 million), three commercial real estate loans (\$9.4 million), and two venture capital loans (\$1 million). Of the 34 funded loans, 15 were originated by the LACDB (\$19 million) and the other 19 were originated by the LACDB's intermediaries. The LA Business Development Corporation (LABDC-VEDC) originated 14 microloans (\$187,100) and one business loan (\$500,000). FAME Renaissance originated two microloans (\$34,900) and one loan each was originated by the Community Finance Resource Center

(\$25,000) and the Business Resource Group (\$500,000). Eleven months into its second full year of operation, the LACDB has reached 39 percent of its projected goal of \$52.6 million in funded loans for 1998.

The attached LACDB plan contains status updates, proposed changes and operational information regarding several items, including:

- 1998 LACDB lending and job creation activity;
- The LACDB's evaluation of its loan products;
- The LACDB proposal for the use of Supplemental Section 108 loan funds in other United States Department of Housing and Urban Development (HUD) eligible areas outside of the LAEZ;
- LACDB loan write offs of uncollectible loans;
- KPMG Peat Marwick LLP (KPMG) audit of the LACDB;
- An explanation of the LACDB's loan risk, yield and expense; and,
- The LACDB's 1999 administrative proposal.

### **Recommendations**

That the City Council, subject to the approval of the Mayor:

1. Instruct the Los Angeles Community Development Bank (LACDB) to fund the debt service reserves for the Supplemental 108 Funds with Community Development Block Grant funds, instead of Section 108 funds, as proposed by the LACDB;
2. Affirm that the 1999 Business Plan includes the expenditure of CDBG funds which the City Council and Mayor previously approved in the Comprehensive Agreement;
3. Adopt the LACDB recommendation to increase staffing from 34 to 36 positions, as contained within the LACDB Business Plan dated October 15, 1998;
4. Approve the attached LACDB Business Plan dated October 15, 1998, subject to the above recommendations; and,

5. Authorize the General Manager of the Community Development Department, as the City's authorized representative, to draft and execute, with the assistance of the City Attorney, any amendments to the Comprehensive Agreement between the City and the LACDB that are required in order to carry out the above recommendations.

### **Fiscal Impact Statement**

The LACDB is funded with grants and proceeds from trust certificate sales backed by federal loan guarantees. While LACDB financial activities have no direct effect on the City's General Fund, the City's allocation of future Community Development Block Grant funds serves as the ultimate security for the bonds. If the LACDB experiences major defaults on its bond interest or principal obligations, the City would realize those losses in the form of reduced future federal block grant allocations. In addition, the City's General Fund may be liable for the reimbursement of any disallowed costs in accordance with current federal policies which prohibit the use of federal funds to repay those costs.

### **Findings**

#### **Background**

1. In January 1998, the City Council and Mayor approved the Los Angeles Community Development Bank's (LACDB) Business Plan for the period of January 1, 1998 through December 31, 1998 (C.F. 94-2167). In accordance with City Council and Mayor action in the 1997 business Plan, the President and Chief Executive Officer of the LACDB submitted its proposed 1999 Business Plan on October 15, 1998. If approved, the plan will be effective on January 1, 1999.

#### **Job Creation**

2. The mission of the LACDB is to promote a positive investment environment and to create/retain sustainable jobs for residents and others within the Los Angeles Empowerment Zone (LAEZ). The LACDB provides non-traditional loans, venture capital and technical assistance to attract, start and expand business opportunities.

The public benefit requirement for all loans offered through the LACDB is that the business must:

- be located in the LAEZ;
- create and/or retain within the LAEZ one job for every \$35,000 (or less) in loans; and,
- provide that at least 51 percent of the jobs created and/or retained are for residents in the LAEZ.

Each LACDB client must submit a hiring plan as part of its loan application. Each client must establish a time line within which it proposes to achieve its job creation/retention plan. The LACDB reports that the time line for all businesses is about two years. Based on the LACDB's total loan activity from its opening in 1996 to date of \$46.8 million, the LACDB's clients are contracted to create/retain a total of 1,378 jobs. The LACDB projects the scheduled time line for job creation/retention by June 30, 1998 at 434 positions. However, the LACDB's clients have already created/retained 682 positions by June 30th, exceeding the LACDB's projections by 247 jobs or 57 percent. Of the actual jobs created/retained, 132 or 19 percent are occupied by residents within the LAEZ.

The types of jobs the LACDB clients are contracted to create/retain include: sales, accounting, drivers, security guards, cooks, marketing coordinators, engineers, office managers, technicians, computer programmers, bookkeepers, upholsterers, production analysts, business managers, tire installers and welders. The LACDB's loan activity, including the list of borrowers, type of program, business location, industry and number of jobs created are shown in the Attachment.

### **1998 Funded Loans**

3. For the period of January 1 to November 5, 1998, the LACDB has funded 34 loans for a total of \$20.3 million. This includes 17 microloans (\$0.3 million), 12 business loans (\$9.6 million), three commercial real estate loans (\$9.4 million), and two venture capital loans (\$1 million). Of the 34 funded loans, 15 were originated by the LACDB (\$19 million) and the other 19 were originated by the LACDB's intermediaries. The LA Business Development Corporation (LABDC-VEDC) originated 14 microloans (\$187,100) and one business loan (\$500,000). FAME Renaissance originated two microloans (\$34,900) and one loan each was originated by the Community Finance Resource Center (\$25,000) and the Business Resource Group (\$500,000).

Based on the loan packages it is currently reviewing, the LACDB anticipates that by December 31, 1998, it will fund an additional 19 loans (\$13.2 million) for a projected 1998 total of 53 funded loans for \$33.5 million. The anticipated loans may include 3 microloans (\$53,000), 13 business loans (\$11.4 million), 2 commercial real estate loans (\$1.6 million), and one community development organization equity loan (150,000).

As of November 5th, the LACDB has reached 39 percent of its 1998 Business Plan goal of 46 loans for \$51.6 million. A comparison of the LACDB's 1998 Business Plan activity, its actual loan activity as of November 5, 1998 and its projected loan activity through December 31st, is shown below.

**COMPARISON OF 1998 BUSINESS PLAN, ACTUAL RESULTS THROUGH NOVEMBER 5TH AND PROJECTED RESULTS THROUGH DECEMBER 31, 1998**

| LACDB PROGRAMS                  | 1998 BUSINESS PLAN   | NO. OF LOANS | 1998 ACTUAL (AS OF 11/5/98) | NO. OF LOANS | 1998 PROJECTED THROUGH 12/31/98 | NO. OF LOANS |
|---------------------------------|----------------------|--------------|-----------------------------|--------------|---------------------------------|--------------|
| Microloans                      | \$ 1,200,000         | 60           | \$ 247,000                  | 17           | \$ 300,000                      | 20           |
| Businesses Loans                | 18,500,000           | 50           | 9,616,000                   | 12           | 21,000,000                      | 25           |
| Commercial Real Estate Loans    | 22,844,000           | 31           | 9,390,000                   | 3            | 11,000,000                      | 5            |
| Venture Capital                 | 7,068,000            | 5            | 1,000,000                   | 2            | 1,000,000                       | 2            |
| Loan Guarantees                 | --                   | n/a          | ---                         | ---          | ---                             | n/a          |
| Loan Loss Reserve               | --                   | n/a          | ---                         | ---          | ---                             | n/a          |
| Business & Technical Assistance | --                   | n/a          | ---                         | ---          | ---                             | n/a          |
| CDO Equity                      | 2,000,000            | ---          | ---                         | ---          | 150,000                         | 1            |
| <b>Total</b>                    | <b>\$ 51,612,000</b> | <b>146</b>   | <b>\$ 20,253,000</b>        | <b>34</b>    | <b>\$ 33,450,000</b>            | <b>53</b>    |

**The LACDB's Loan Product and Evaluation**

- The LACDB offers the following loan products either directly (through the LACDB itself) or indirectly (through competitively selected intermediaries of the LACDB): 1) microloans, 2) business loans, 3) commercial real estate loans, 4) business and technical support, 5) loan guarantee program, 6) loan loss reserve program, 7) interest rate/points buy down program, 8) venture capital and 9) community development organization (CDO) equity program. In 1998, the LACDB conducted an evaluation of most of its loan products and assessed the reasons the 1998 Business Plan projections fell short of the goals.

**Microloans** - originated and underwritten primarily through financial intermediaries, small business owners may borrow from \$1,000 to \$25,000 to finance business startups, expansion and growth, equipment acquisition and working capital.

LACDB staff recently conducted a telephone survey of 15 lenders in the Southern California area and determined that: 1) only 25 percent were making loans of \$20,000 or less, 2) the lenders scored loan applicants solely on the historical performance in the credit report, 3) the lenders did not make loans to startup businesses and 4) the lenders did not make direct loans. The lenders surveyed did, however, provide loans indirectly through the United States Small Business Administration's (SBA) LowDoc Program.

The LACDB reports that this trend suggests a market for its microloan program because the field is currently limited and LACDB evaluates applicants based on both historical performance and future potential. However, the 1999 expansion of two of SBA's loan programs, Express and LowDoc, may negatively impact the LACDB because: 1) both SBA loan programs target the same market as the LACDB, 2) SBA loans may be approved within 36 hours whereas LACDB loans may be approved within six weeks), 3) applicants rejected through the SBA Express program will be automatically reconsidered through the SBA's LowDoc program and 4) under the SBA programs, a portion of the borrowers' credit may be unsecured.

The LACDB believes its microloan program falls significantly short of the planned results because: 1) of implementation procedures required by the United States Department of Housing and Urban Development (HUD) and 2) most prospective borrowers require extensive pre-lending technical assistance and, in some instances, the completion of entrepreneurial training courses before a loan package may be assembled. Furthermore, for loan consideration, the SBA does not require job creation and/or retention, environmental checks or that 51 percent of the businesses' employees reside in a targeted area. The LACDB's application process is complicated and the requirements for monthly financial statements are intimidating. Because most microbusinesses are one-person shops, the business owners report that preparing monthly financial statements can mean a loss in sales or other activity dedicated to generating business.

The LACDB has implemented the following programs enhancements since September 1998 to address the program issues: 1) streamline the application process, 2) provide funding for innovative outreach programs for the LAEZ business community, 3) identify and provide funding for pre-loan technical assistance, 4) implement quarterly financial reporting and Certified Public Accountant prepared annual statements in lieu of monthly reporting and 5) waive the Business Plan requirement unless the client has a start-up business that has been in operation for less than 12 months.

**Business loans** - may finance the expansion of existing operations, acquisition of new plant facilities, business acquisitions, franchise acquisitions and expansion, cooperatives, startups, employee ownership programs, equipment purchases and permanent working capital. The LACDB may directly originate and underwrite loans from \$500,000 to \$20 million and LACDB's financial intermediaries may originate and underwrite loans from \$100,000 to \$2.5 million.

Based on the comments of its intermediaries, the LACDB reports that: 1) too much paperwork is required, 2) the credit declination letter is a deterrent for some borrowers, 3) intermediaries do not have the staff or resources to concentrate on strategic marketing efforts, 4) applicants require extensive technical assistance which adds to the financial intermediaries' time and cost, 5) the credit review requirement (both by the intermediary and the LACDB) delays the approval process and 6) intermediaries are required to work only with businesses currently operating in the empowerment zone.

The LACDB has: 1) streamlined the paperwork process, 2) provided funding for innovative outreach programs, 3) provided interns to develop marketing programs for the LACDB, and two of its financial intermediaries, CFRC and TELACU+H2, 4) considered increased compensation to the intermediaries to reflect the added costs of working with borrowers to prepare their loan applications, 5) considered working with the City's Entrepreneurial Training Program and Business Assistance Centers to prepare clients for financing, 6) delegated authority to the LACDB's Staff Credit Committee to approve loans at or below \$250,000 and 7) intermediaries now have authority to work with businesses wishing to relocate into the LAEZ. The intermediaries will be compensated based on the actual move date to avoid disallowed costs.

**Commercial Real Estate loans** - may finance vacant lot revitalization, underutilized property development, rebuild and rehabilitation projects, mixed use projects, the acquisition of property and plant facilities for development into incubator space and industrial parks. The LACDB may directly originate and underwrite commercial real estate loans from \$25,001 to \$20 million and LACDB's financial intermediaries may originate and underwrite loans from \$75,000 to \$1 million.

The LACDB reports that it released an RFP for commercial loan intermediaries in summer 1998. No responses were received. The financial intermediaries report that the LACDB's program is not competitive with other programs. As a result, the LACDB has temporarily placed the financial intermediary program on hold until it can determine how it may offer a competitive product. Until that time, however, the LACDB itself will originate and underwrite the commercial real estate loans.

**Business and Technical Support** - provided primarily through LACDB intermediaries, this program provides borrowers with the opportunity to enhance the economic viability and operational performance of their business ventures. The LACDB also developed the Loan Packaging Services (LPS) program which is designed to assist loan applicants with all loan packaging needs. The LPS providers originate, screen, package and present completed loan applications to either the LACDB financial intermediaries or to the LACDB itself.

The LACDB reports that it will conduct a program evaluation in early 1999. The LACDB also reports that as of summer 1998, it had not received any LPS packages. The LPS providers report that the LACDB loan products are harder to market than other loan products. However, the LACDB expects increased loan volume in 1999 because there are now seven LPS providers.

**Loan Guarantee Program** - based on the California Loan Guarantee program, the loan guarantee program provides for the LACDB to issue a guarantee of up to 75 percent of the loan request. The guarantee would be provided to a private lender that, having declined a loan request from a borrower, would agree to fund the loan with the LACDB guarantee in place.

**Loan Loss Reserve Program** - Based on the State of California CAL-CAP program, the LACDB's program would operate with the borrower and the private bank contributing two percent each and the LACDB contributing six percent to establish a 10 percent loan loss reserve. This reserve would be held by the LACDB to cover aggregate losses.

**Interest Rate/Points Buy Down Program** - related to the loan loss reserve program, the LACDB would fund the borrower's share of the two percent Loan Loss Reserve program or buy down the interest rate a private bank charges a borrower. The LACDB reports that its participation in this program would be based on the public benefit of job creation.

The LACDB reports that the Loan Guarantee, the Loan Loss Reserve and the Interest Rate/Points Buy Down programs have not yet been implemented because the LACDB has not yet determined a viable means to implement these programs using Section 108 funds. Furthermore, additional discussions with HUD will be required prior program start to avoid disallowed costs. As a result, the LACDB has focused on its improving its core businesses.

**Venture Capital Program** - developed to provide access to capital for small and medium sized businesses for development and expansion in the LAEZ, the LACDB invests in companies that are unable to access private venture capital funds because the amount of financing required does not meet such funds' investment parameters and/or the company is at too early a stage of development to attract traditional venture capital.

The Venture Capital Program falls short of planned results because: 1) this program will now be managed through investment management services providers selected through a Request for Proposal (RFP) process and 2) there were delays selecting and entering into an agreement with a provider. The LACDB released its RFP in October 1997; however, the LACDB's agreement with its management services provider, Zone Ventures, just closed in August 1998. Zone Ventures will focus on high technology firms that can relocate into the LAEZ. The LACDB reports that negotiations are underway with a second potential investment manager that would focus on existing firms in the LAEZ.

The LACDB is not yet able to evaluate this program because it just started in August 1998. However, the LACDB reports that it may release another RFP in summer 1999.

### **1999 Projected Resource Allocation Plan (PRAP)**

5. The LACDB has stated that the premise for the proposed 1999 PRAP is an evaluation of loan risk compared with loan return. Section 108 funds are loans which the City must repay to HUD while EDI funds are grants which do not have to be repaid. The LACDB proposes to use Section 108 funds for those programs which will bring a return on funds and EDI for those which do not. Therefore, the Business and Commercial Real Estate loan programs are funded entirely with Section 108 because those programs generate both program fees and interest on the loans. However, the intermediary and LACDB program expenses, the loan loss reserve and debt service reserve are funded with EDI. Although it is anticipated that the Venture Capital program will bring a return on funds, it is a much riskier program. Therefore, in 1998, the City requested and the proposed 1999 PRAP reflects the City's request that the LACDB use a proportional share of EDI and Section 108 funds to cover the Venture Capital program. The City requested that the EDI funds for this program be used first to minimize the risk to the City.

The City has allocated \$205 million in Supplemental Section 108 (\$200 million) and Community Development Block Grant (CDBG) (\$5 million) funds for other HUD eligible areas outside of the LAEZ. The 1999 PRAP reflects the LACDB's determination that all loans for eligible areas outside the LAEZ and the debt service reserves for those loans be funded with Section 108. Based on prior City authorization, the loan loss reserves and the program expenses are proposed to be funded with CDBG funds.

The LACDB proposes the debt service reserves to be funded with Section 108 funds. However, we find that the debt service reserves should be funded with CDBG instead of Section 108 funds because it is more expensive to use the Section 108 than the CDBG funds. The estimated seven percent interest rate that must be paid on the Section 108 funds is approximately four percent higher than the estimated three percent that may be earned in interest while the Section 108 funds are on reserve. If interest rates rise, the cost of funds would be even higher than the currently estimated seven percent. Therefore, there will be at least a four percent loss when Section 108 funds are used for the debt service reserves. We further find that the LACDB should provide projections as to when all \$5 million in CDBG funds will be used so that there will be sufficient time for the City to determine, as a policy issue, whether or not it will allocate additional CDBG funds for eligible areas outside the LAEZ. Sufficient time is also required because the funding cycle for CDBG funds, which occurs through the Consolidated Plan, is April 1 through March 31 and the business plan cycle for the LACDB is January 1 through December 31.

### **Copeland Beverage Group, Inc. Loan**

6. The LACDB, as earlier reported, provides loans on both the historical credit history and future business potential. In April 1997, the LACDB provided a \$10 million loan to the Copeland Beverage Group, Inc. (CBG), a dairy and soft drink manufacturing concern, to retain 100 skilled jobs and to create, potentially over 100 more jobs. However, in the first quarter of 1998, the CBG's financial condition deteriorated resulting in significant losses. In response, however, the CBG Board restructured its operation and presented the LACDB with a workout plan to address its operational and financial deficiencies. The LACDB reports that the CBG Board has selected a new, experienced management team. In October 1998, the team presented the LACDB with a workout plan that: 1) provided cost cutting and operational proposals that project the CBG will be at the break-even point by summer 1999 and 2) showed the LACDB a strong business plan based on the market potential for dairy products. The CBG management team reports that the per capita consumption of dairy products is up, the population in Southern California is increasing and the supply of dairy companies is limited because building new dairy plants is expensive and the profit margins are low. As a result, the LACDB has provided the CBG an additional \$5 million to continue its operation.

### **Loan Write-Offs**

7. The LACDB reports that it has written off five loans totaling \$1.2 million to date. All except one loan were originated from the period the LACDB first opened in 1996 to early 1997. These loans represent five companies and range in amount from \$20,000 to \$920,000. The LACDB estimates that it has recovered \$33,139 from the liquidation of one company's assets and anticipates that it may receive an additional \$75,000 after the liquidation of another company's assets, for a potential total recovery of \$108,138. The LACDB reports any further recovery is unlikely, although it will monitor the situation. Unlike the CBG, the LACDB reports these businesses appear unable to recover.

### **Audit**

8. KPMG Peat Mawick, LLP, the CPA firm selected through the RFP process to conduct an audit of the LACDB, submitted its audit findings to the LACDB Audit Committee in September 1998. KPMG monitored the LACDB's compliance procedures which included: anti-discrimination, eligible/ineligible activities, internal controls/compliance systems, national objective and record keeping. KPMG's audit also covered the LACDB's financial statements for the three months that ended March 31, 1998 and 1997. KPMG's audit determined that the LACDB has complied with all generally accepted accounting standards.

KPMG did make five recommendations for the LACDB, which primarily focused on organizational items that may help the LACDB run more efficiently. KPMG's audit includes the LACDB's concurrence with its recommendations and the status of the LACDB's response to those actions. The most significant finding is KPMG's report of the risks associated with the LACDB's financial instruments. A detailed discussion follows.

### **LACDB Loan Risk, Yield and Expense**

9. In our report to the City Council and Mayor dated December 15, 1997, we discussed the KPMG Peat Marwick LLP (KPMG) audit finding that the LACDB's loan pricing strategy of issuing loans below or at market rates and its objective to eventually become a self-sufficient entity, not reliant on the assistance of government agencies, poses difficult operational issues for the LACDB.

Under the terms of the Comprehensive Agreement, the LACDB is funded, in part, with Economic Development Initiative (EDI) grant funds for nine years, from 1996 to 2004. If the LACDB is not self-sufficient prior to exhaustion of the EDI grant funds, it becomes a policy issue as to whether or not the City Council and Mayor continue the LACDB with other City provided funds. In that report, we recommended that the City monitor the LACDB's loan lending performance. We recently requested the LACDB to provide more detailed information regarding its loan pricing, risk, yield and expense strategy and how those factors may impact the LACDB's ability to become self-sufficient.

The LACDB reports that there are five areas in which the LACDB and other commercial banks should be compared: 1) operating expenses, 2) cost of funds, 3) risk, 4) yield, and 5) profit/EDI subsidy.

**Operating Expenses** - the LACDB reports that the two percent operating or administrative expense is about the same for both itself and for commercial banks.

**Cost of Funds** - the cost of funds for commercial banks is the amount the commercial bank pays its customers in interest, about two to three percent. Furthermore, commercial banks hold other funds on deposit, such as checking accounts, for which no interest is paid. The cost of funds for the LACDB is based on HUD public offerings. HUD initiates public offerings about every 15 months based on the outstanding Section 108 loan amount of its grantees nationwide. The LACDB reports that with HUD's most recent public offering in October 1997, its cost of funds was approximately seven percent, four to five percent higher than the cost of funds for commercial banks.

**Risk** - the LACDB reports that the risk for commercial banks is fairly low because commercial bank borrowers must have a good or excellent credit history and sufficient collateral to back the loan. The LACDB reports its risk as significantly higher than that of

commercial banks because: 1) the LACDB customers must have been denied credit by at least one commercial bank prior to loan consideration by the LACDB and 2) the LACDB provides loans to start-up businesses and to clients with less substantial credit histories, but whose future potential appear significant with the appropriate support. Furthermore, KPMG, in its audit, reported that because most of the LACDB's clients are based in the same area, all of its clients are similarly affected by changes in economic conditions in the borrowers' geographic area and by the borrowers' individual financial condition. KPMG reports that future changes in market prices may reduce the value of the loans and increase the contractual obligations of the LACDB.

**Yield** - the yield, or interest earned on loans, is the same for both the commercial banks and the LACDB:

**Profit/EDI Subsidy** - For both the commercial banks and the LACDB, the yield or interest earned on outstanding loans, is the same, ten percent. Because the commercial banks' cost of funds and risk is much lower, a ten percent yield provides the banks with a profit of approximately two percent. Because the LACDB's cost of funds and risk is substantially higher, approximately 22 percent, the same 10 percent yield for the LACDB must be supplemented with EDI funds for the LACDB to break even. Therefore, for the LACDB to break even without the assistance of EDI funds, the LACDB would have to charge an interest rate of at least 22 percent.

Based on the current information, the LACDB may not have sufficient funds to be self-sufficient after 2004. We therefore find that the City should continue to monitor and evaluate the LACDB's loan lending performance to determine whether or not this program may be continued after 2004 if the LACDB is not self-sufficient within nine years.

### **Peer Bank Comparison**

10. The LACDB reports that it compared its performance with five peer banks in the Los Angeles/Long Beach Metropolitan Statistical Area (MSA). LACDB reports it compared itself to banks that: 1) have both their headquarters and lending area primarily in the LA/LB MSA, 2) are independent community banks, 3) as of January 1997, had more commercial and industrial loans outstanding than the LACDB, 4) have a record of commercial and industrial lending to small businesses, including SBA loans and 5) have been active in the small business lending market since 1990.

The banks against which the LACDB (opened June 1996) compared itself are: American Pacific (opened March 1971), Founders National (opened January 1991), Wilshire State (opened December 1980), Los Angeles National (opened December 1973) and Verdugo

(opened August 1991). The Broadway and Brentwood Savings and Loans, two financial institutions serving the targeted area, were not included because they do not have significant commercial and industrial loan volumes.

Based on the LACDB's peer bank comparison, from the LACDB's opening to present, the LACDB has outperformed its peers. For the one-year period from June 1997 to June 1998, the LACDB (\$34 million) has the third largest loan portfolio in the group and grew at a rate of over 240 percent. American Pacific Bank (\$57 million) has the largest loan portfolio and grew at a rate of 31 percent for the same period. Wilshire State Bank (\$43 million) has the second largest portfolio and grew at a rate of 80 percent for the same period.

### **LACDB Administrative Budget, Staffing & Offices**

11. The 1999 proposed administrative budget of \$3.7 million represents a two percent increase (\$74,737) over the 1998 adopted budget. However, the projected 1998 budget of \$3 million is approximately 20 percent (\$600,000) lower than projected. The LACDB reports the administrative budget is lower as a result of delayed capital expenditures for the opening of the Eastside Office and delays in hiring new staff. The LACDB reports that in 1999 it proposes to create a Loan Administration Department to manage an anticipated 100 percent increase in its loan portfolio. The LACDB also proposes to increase its staff from 34 to 36. One position is Compliance Assistant and the other position is Workout Specialist.

The Compliance Assistant is responsible for tracking the job creation requirements for the borrowers, analyzing the data, coordinating training programs and recruitment to fill positions and serving as liaison to the one-stop work force development centers. The Workout Specialist will provide specialized assistance with problem loans. The specialist will analyze the proposed financial, management and operational plan, cost-cutting proposals and analyze the market potential for the product.

The LACDB now has three satellite offices open and operational, Pacoima (July 1997), Watts (October 1997) and Eastside (October 1998). The LACDB headquarters is located at 5312 South Vermont (54th Street) and opened in February 1997.

KC:RFD\PCAJOS:klc

Attachment

32985b63

**LIST OF BORROWERS  
(AS OF October 31, 1998)**

Attachment

| NO. | BORROWER                               | PROGRAM       | ORIGINATOR (INTERMEDIARY)             | LOCATION  | INDUSTRY                                       | AMOUNT<br>CLOSED | JOBS |
|-----|--|---------------|---------------------------------------|-----------|--|------------------|------|
| 1   | BCA Protective Consulting Services     | Business Loan | L.A. Community Development Bank       | City SZ   | Security                                       |                  | 3    |
| 2   | California Dream Kitchen               | Business Loan | L.A. Community Development Bank       | City EZ   | Upscale catering vehicles                      |                  | 28   |
| 3   | Central New Wave Publications          | Business Loan | L.A. Community Development Bank       | City SZ   | Non-Daily or Weekly Newspaper Publishing       |                  | 63   |
| 4   | Copeland Beverage                      | Business Loan | L.A. Community Development Bank       | City SZ   | Beverage Wholesaler                            |                  | 366  |
| 5   | Eco Shield                             | Business Loan | L.A. Community Development Bank       | City EZ   | Protective Coatings                            |                  | 7    |
| 6   | Family Ford                            | Business Loan | L.A. Community Development Bank       | City SZ   | Auto Dealership                                |                  | 48   |
| 7   | Foothill Auto Electric                 | Business Loan | L.A. Community Development Bank       | City SZ   | Auto Parts Re-manufacturer                     |                  | 30   |
| 8   | GDB Graphics                           | Business Loan | L.A. Community Development Bank       | City SZ   | Printing/Graphics                              |                  | 33   |
| 9   | Golden Bird                            | Business Loan | L.A. Community Development Bank       | City SZ   | Restaurant Chain                               |                  | 6    |
| 10  | Hayes Protective Service               | Business Loan | L.A. Community Development Bank       | City SZ   | Protective Services                            |                  | 27   |
| 11  | Image Management Systems               | Business Loan | L.A. Community Development Bank       | County SZ | Microfilming                                   |                  | 8    |
| 12  | Jorge's Market                         | Business Loan | L.A. Community Development Bank       | City SZ   | Grocery  |                  | 3    |
| 13  | Kids on the Move                       | Business Loan | L.A. Community Development Bank       | City SZ   | Transportation                                 |                  | 23   |
| 14  | Le Gre                                 | Business Loan | L.A. Community Development Bank       | City EZ   | Home accessories                               |                  | 3    |
| 15  | Legal Services Industries              | Business Loan | Summit Group                          | City SZ   | Processing and Filing Services for Legal Prof. |                  | 15   |
| 16  | Lido Bungee Corporation                | Business Loan | L.A. Community Development Bank       | City SZ   | Wholesaler of Bungee Cords                     |                  | 21   |
| 17  | LKS Technology                         | Business Loan | L.A. Community Development Bank       | City EZ   | Wholesale & Retail Sales of Computers          |                  | 16   |
| 18  | Luna Music Corporation                 | Business Loan | L.A. Community Development Bank       | Outside   | Fully integrated music company                 |                  | 8    |
| 19  | Marcelo's Food Service, Inc.           | Business Loan | L.A. Community Development Bank       | City SZ   | Wholesale Meats                                |                  | 16   |
| 20  | New Lissee                             | Business Loan | L.A. Community Development Bank       | City EZ   | Cosmetics Distribution                         |                  | 18   |
| 21  | Pacoima Automotive                     | Business Loan | L.A. Community Development Bank       | City SZ   | Gas Station                                    |                  | 18   |
| 22  | Powdermet, Inc.                        | Business Loan | L.A. Community Development Bank       | City SZ   | Metal Coatings                                 |                  | 6    |
| 23  | PractiCare                             | Business Loan | L.A. Community Development Bank       | City EZ   | Medical Office                                 |                  | 13   |
| 24  | Quick 'N Split                         | Business Loan | L.A. Community Development Bank       | City SZ   | Fast Food                                      |                  | 11   |
| 25  | Royal Heirlooms                        | Business Loan | L.A. Community Development Bank       | City EZ   | Manufacturer of Upholstered Furniture          |                  | 7    |
| 26  | Shootout Mountain                      | Business Loan | L.A. Community Development Bank       | Outside   | Clothing Manufacturer                          |                  | 25   |
| 27  | Sinclair Trading                       | Business Loan | L.A. Community Development Bank       | City EZ   | Food Importer                                  |                  | 8    |
| 28  | Summit Industries, Inc.                | Business Loan | L.A. Community Development Bank       | City EZ   | Manufacturer-slaks                             |                  | 72   |
| 29  | Sunflower Textiles, Inc.               | Business Loan | L.A. Community Development Bank       | City EZ   | Clothing Manufacturer                          |                  | 18   |
| 30  | Trinity Knitworks, Inc.                | Business Loan | L.A. Community Development Bank       | City EZ   | Apparel  |                  | 27   |
| 31  | West Coast Metal Finishing             | Business Loan | L.A. Community Development Bank       | City EZ   | Metal Coatings                                 |                  | 8    |
| 32  | Yaeger & Sons                          | Business Loan | L.A. Community Development Bank       | City EZ   | Manufacturer of Hand Trucks                    |                  | 17   |
| 33  | American Fleet Services                | Microloan     | L.A. Business Development Corporation | City SZ   | Truck & Equipment                              |                  | 1    |
| 34  | April                                  | Microloan     | L.A. Business Development Corporation | City EZ   | Clothing Manufacturing                         |                  | 1    |
| 35  | Ayos Graphics & Publishing             | Microloan     | L.A. Community Development Bank       | City EZ   | Graphics and Publishing                        |                  | 1    |
| 36  | Bumper Bob's Welding                   | Microloan     | L.A. Business Development Corporation | City SZ   | Home-Based Welding Co.                         |                  | 1    |
| 37  | California Fusing                      | Microloan     | L.A. Business Development Corporation | City EZ   | Fusing & bonding of fabrics                    |                  | 1    |
| 38  | Cannonball Messenger Service           | Microloan     | Community Financial Resource Center   | City SZ   | Delivery Service                               |                  | 1    |
| 39  | Cupido's Bridal                        | Microloan     | L.A. Business Development Corporation | City SZ   | Full Service Bridal Shop                       |                  | 1    |
| 40  | El Sauz Meat Market                    | Microloan     | L.A. Business Development Corporation | City SZ   | Retail meat market                             |                  | 1    |
| 41  | Elegant Lady                           | Microloan     | L.A. Business Development Corporation | City SZ   | Clothing Retail Business                       |                  | 1    |
| 42  | Flame Designer Candles                 | Microloan     | L.A. Business Development Corporation | City SZ   | Mfg. Artistic Candles                          |                  | 1    |
| 43  | Grace's Jewelry                        | Microloan     | L.A. Business Development Corporation | City SZ   | Jewelry Mfg.                                   |                  | 1    |
| 44  | Hylon Concrete                         | Microloan     | L.A. Business Development Corporation | City SZ   | Concrete Pumping                               |                  | 1    |
| 45  | J & S Artwork                          | Microloan     | L.A. Business Development Corporation | City EZ   | Women's Casualwear                             |                  | 1    |
| 46  | Julio's Tire and Auto Repair           | Microloan     | FAME                                  | City EZ   | Engine and Transmission Repair                 |                  | 1    |
| 47  | Lease Masters                          | Microloan     | L.A. Business Development Corporation | City EZ   | Leasing and Management Business                |                  | 1    |
| 48  | Luzma Toys                             | Microloan     | L.A. Business Development Corporation | City SZ   | Toys & electronics retailer                    |                  | 1    |
| 49  | Maple Dye                              | Microloan     | L.A. Business Development Corporation | City SZ   | Garment Dyeing                                 |                  | 1    |
| 50  | Matus Auto Upholstery                  | Microloan     | L.A. Business Development Corporation | City SZ   | Upholstery Services                            |                  | 1    |
| 51  | Performigence                          | Microloan     | L.A. Community Development Bank       | City SZ   | Software Developer                             |                  | 1    |
| 52  | RC Photo Classifieds                   | Microloan     | L.A. Business Development Corporation | City SZ   | Advertisement Publication                      |                  | 1    |
| 53  | The Rich Bum All-American Sandwich Sho | Microloan     | FAME                                  | City SZ   | Restaurant                                     |                  | 1    |

|              |                             |                 |                                       |           |                                 |                        |              |
|--------------|-----------------------------|-----------------|---------------------------------------|-----------|---------------------------------|------------------------|--------------|
| 54           | Universal Dairy Market      | Microloan       | L.A. Business Development Corporation | City SZ   | Neighborhood Store              | 1                      |              |
| 55           | Wendill's Chicken House     | Microloan       | L.A. Business Development Corporation | City SZ   | Fried Chicken Restaurant        | 1                      |              |
| 56           | Wheel to Reel Trucking      | Microloan       | L.A. Business Development Corporation | City SZ   | Transportation of Dry Freight   | 1                      |              |
| 57           | Winthrop Industries         | Microloan       | L.A. Business Development Corporation | County SZ | Manufacturer of Funeral Caskets | 1                      |              |
| 58           | Yoon's Match Point, Inc.    | Microloan       | L.A. Business Development Corporation | City EZ   | Women's Garment Wholesaler      | 1                      |              |
| 59           | Young's Co.                 | Microloan       | L.A. Business Development Corporation | City SZ   | Wholesaler of Clothing          | 1                      |              |
| 60           | Alameda Produce Market      | Com'l R.E.      | L.A. Community Development Bank       | City EZ   | Furniture Manufacture           | 229                    |              |
| 61           | Double D Western Wear       | Com'l R.E.      | L.A. Community Development Bank       | City SZ   | Clothing Retailer               | 12                     |              |
| 62           | PractiCare                  | Com'l R.E.      | L.A. Community Development Bank       | Outside   | Medical Office                  | 40                     |              |
| 63           | Universal Dyeing & Printing | Com'l R.E.      | L.A. Community Development Bank       | City EZ   | Dyeing and finishing textiles   | 28                     |              |
| 64           | Valus Produce, Inc.         | Com'l R.E.      | L.A. Community Development Bank       | City EZ   | Produce Distributor             | 29                     |              |
| 65           | West Coast Metal Finishing  | Com'l R.E.      | L.A. Community Development Bank       | City EZ   | Metal Coatings                  | 12                     |              |
| 66           | Mead Ophthalmics            | Venture Capital | L.A. Community Development Bank       | Outside   | Ophthalmics Lenses              | 6                      |              |
| 67           | Performigence               | Venture Capital | L.A. Community Development Bank       | City SZ   | Software Developer              | 23                     |              |
| <b>TOTAL</b> |                             |                 |                                       |           |                                 | <b>\$46,763,980.01</b> | <b>1,378</b> |

**SUMMARY**

| Program                | Borrowers | Totals                 | Jobs         |
|------------------------|-----------|------------------------|--------------|
| Business Loans         | 32        | 33,128,230.01          | 972          |
| Microloans             | 27        | 464,500.00             | 27           |
| Commercial Real Estate | 6         | 12,171,250.00          | 350          |
| Venture Capital        | 2         | 1,000,000.00           | 29           |
| <b>TOTAL</b>           | <b>67</b> | <b>\$46,763,980.01</b> | <b>1,378</b> |

J. MICHAEL CAREY  
City Clerk

When making inquiries  
relative to this matter  
refer to File No.

CITY OF LOS ANGELES  
CALIFORNIA



RICHARD J. RIORDAN  
MAYOR

Office of the  
CITY CLERK  
Council and Public Services  
Room 615, City Hall  
Los Angeles, CA 90012  
Council File Information - (213) 485-5703  
General Information - (213) 485-5705

98-2035  
All CDs

November 2, 1998

COMMUNITY & ECONOMIC DEVELOPMENT COMMITTEE

In accordance with Council Rules, communication from the Community Development Department (CDD) relative to submission of Los Angeles Community Development Bank Business Plan for January 1, 1999 through December 31, 1999, was referred on November 2, 1998, to the COMMUNITY & ECONOMIC DEVELOPMENT COMMITTEE.

*J. Michael Carey*

City Clerk  
amm



PARKER C. ANDERSON  
GENERAL MANAGER

CITY OF LOS ANGELES  
CALIFORNIA



RICHARD J. RIORDAN  
MAYOR

COMMUNITY DEVELOPMENT  
DEPARTMENT

215 W. 6TH STREET  
LOS ANGELES, CA 90014  
(213) 485-1617  
FAX (213) 237-0551

OCT 29 1998

Council File No.: <sup>98-2035</sup> 94-2167  
Council Districts: All  
Contact Person & Extension  
Marilyn Lurie, X52952  
Jasper Williams, X52952  
Industrial & Commercial Development Division

Honorable Richard J. Riordan  
Mayor, City of Los Angeles  
8th Floor, City Hall East

Los Angeles City Council  
c/o City Clerk's Office  
Room 615, City Hall East

Attention: June Lagmay, Legislative Coordinator  
8th Floor, City Hall East

**COMMITTEE TRANSMITTAL: SUBMISSION OF LOS ANGELES COMMUNITY  
DEVELOPMENT BANK BUSINESS PLAN FOR JANUARY 1, 1999 - DECEMBER 31, 1999**

Transmitted herewith for your review and further processing is the annual Business Plan of the Los Angeles Community Development Bank (LACDB) for the period January 1, 1999 - December 31, 1999.

**RECOMMENDATIONS:**

**The General Manager, Community Development Department respectfully requests that:**

1. Your office process this transmittal through the appropriate City Council Committee and City Council for review and consideration.

**DEADLINE FOR MAYOR'S ACTION:**

Pursuant to Article VIII, Section 8.02-b of the 1st Amendment to the Comprehensive Agreement between the LACDB, the City and the County, the Mayor must act on the Business Plan within 10 days of action by City Council or the Council's action will be deemed final. The City Council must approve or disapprove the Business Plan by December 10th of the year of submission.

COMMUNITY & ECON DEV

OCT 30 1998



Honorable Richard J. Riordan  
Los Angeles City Council

2

**SUMMARY:**

The First Amendment to the Comprehensive Agreement between the City, the County, and the LACDB requires that the LACDB submit its Business Plan on or before October 15th of each year. Consistent with the Agreement, the LACDB has submitted its Business Plan for the period January 1, 1999 - December 31, 1999. The Community Development Department is transmitting the Business Plan in order to start the scheduling process. A separate report and recommendation on the Business Plan will be submitted prior to Committee and Council action.

**FISCAL IMPACT STATEMENT:**

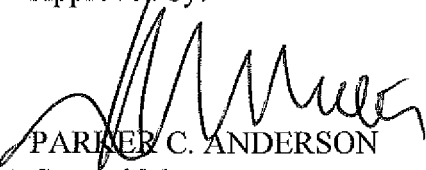
The LACDB is funded with grants and proceeds from bond sales backed by federal loan guarantees. While LACDB financial activities have no direct effect on the City's General Fund, the City's allocation of future Community Development Block Grant funds serves as the ultimate security for the bonds. If the LACDB experiences major defaults on its bond interest or principal obligations, the City would realize those losses in the form of reduced future federal Block Grant allocations. In addition, the City's General Fund could be liable for the reimbursement of any disallowed costs in accordance with current federal policies which prohibit the use of federal funds to repay those costs.

A copy of this transmittal is being forwarded to the City Attorney for concurrent review and approval.

Prepared by:

  
MARILYN M. LURIE, Director  
Industrial and Commercial Development

Approved by:

  
PARKER C. ANDERSON  
General Manager

PCA:MML:ckc

Attachment  
cdbtrans/ML

**Los Angeles**  
**Community Development Bank**  
*(Not A Commercial Bank)*

1999  
ANNUAL BUSINESS PLAN

Los Angeles  
**Community Development Bank**

*(Not A Commercial Bank)*

**Board of Directors**

October 15, 1998

Antonio González  
Chairman of the Board  
William C. Velásquez Institute

Los Angeles City Council,  
County of Los Angeles Board of Supervisors and,  
Residents of the Los Angeles Empowerment Zone (EZ)

Debra Esparza  
Esparza and Associates

Attention: Mr. Parker Anderson, City of Los Angeles Community Development Department  
Mr. Carlos Jackson, County of Los Angeles Community Development Commission

Denise Fairchild, Ph.D.  
LA Prosper Partners

John Gallarza  
Glendale Federal Bank

Dear Honorable Councilmembers, Supervisors, and EZ Residents:

Ronald Gastelum  
BKK Corporation

The Los Angeles Community Development Bank (*Not A Commercial Bank*) (LACDB) is pleased to present for your information, review, and approval, its 1999 Annual Business Plan.

David Gonzales  
Wells Fargo Bank

The 1999 Annual Business Plan reflects the LACDB's plans for its third full year of operation and contains the Projected Resource Allocation Plan (PRAP). The *Financial Plan* section also presents the 1997 audited financial information. The *Accomplishments to Date* section highlights the LACDB's 1998 achievements.

Ozie Gonzaque  
Housing Authority  
of the City of Los Angeles

The 1999 Annual Business Plan contains the *Marketing Plan* that describes the strategic direction that will be implemented to actively promote the LACDB's products and to fully support the mission and goals of the organization. The Marketing Plan is envisioned as a dynamic and evolving plan that will be adjusted to meet the needs of the Empowerment Zone (EZ) such as, the development of new products and/or programs for the LACDB and to incorporate the lessons learned about the EZ market environment.

Christopher Hammond  
Capital Vision Equities

Raul Molina  
RAMA Services

Alfred Osborne, Ph.D.  
UCLA, Harold Price Center for  
Entrepreneurial Studies

Luis Rojas  
Protterra Real Estate Services

In conclusion, the Board of Directors and Management of the LACDB join with me in requesting your early approval of the 1999 Annual Business Plan so that our efforts may be continued and accelerated in pursuit of the LACDB mission.

Peter Taylor  
Lehman Brothers

Teryl Watkins  
Watts Labor Community  
Action Committee

We welcome your comments and suggestions. Please address them to my attention at the address shown below. The telephone number is (213) 759-7759; the fax number is (213) 759-7750.

Charles Woo  
Mega Toys

Sincerely,

*C. Robert Kemp*

C. Robert Kemp  
President & CEO

C. Robert Kemp  
President and Chief Executive Officer

Enclosures

cc: Mayor Richard Riordan, Rockard Delgadillo, Mary Teemley,  
and LACDB Board of Directors

## TABLE OF CONTENTS

| <b>Section</b> | <b>Description</b>               | <b>Page</b> |
|----------------|----------------------------------|-------------|
| I              | EXECUTIVE SUMMARY                | 1           |
| II             | MISSION STATEMENT                | 9           |
| III            | HISTORICAL BACKGROUND            | 10          |
| IV             | MANAGEMENT AND ORGANIZATION PLAN | 11          |
| V              | GOVERNANCE                       | 17          |
| VI             | PRODUCT DESCRIPTION              | 18          |
| VII            | MARKET ANALYSIS                  | 24          |
| VIII           | MARKETING PLAN                   | 45          |
| IX             | FINANCIAL PLAN                   | 51          |
| X              | ACCOMPLISHMENTS TO DATE          | 57          |

## LIST OF EXHIBITS

| Exhibit | Description  | Page    |
|---------|--|---------|
| 1       | 1998 LOANS CLOSED  | 1       |
| 2       | PEER BANK COMPARISON   | 3       |
| 3       | ORGANIZATION CHART   | 12      |
| 4       | LACDB STAFFING, BY POSITION  | 13      |
| 5       | LACDB STAFF DIVERSITY  | 14      |
| 6       | BUSINESSES IN THE EZ AND SZ/SUPPLEMENTAL 108 AREA<br>BY MAJOR SIC DIVISIONS  | 26      |
| 7       | EZ AND SZ/SUPPLEMENTAL 108 BUSINESSES BY BUSINESS<br>TYPE                    | 28      |
| 8       | BUSINESSES BY EZ NEIGHBORHOODS   | 29      |
| 9       | BUSINESSES IN THE EZ AND SZ IN 1997 AND 1998                                 | 30      |
| 10      | SALES VOLUME BY COMPANY  | 31      |
| 11      | BUSINESSES IN THE EZ AND SZ/SUPPLEMENTAL 108 AREA BY<br>NUMBER OF EMPLOYEES  | 32      |
| 12      | TOP TEN EMPLOYERS IN THE EZ  | 33      |
| 13      | MAP OF LOW-MOD CENSUS TRACTS IN THE CITY OF LA                               | 34      |
| 14      | STRATEGIC ALLIANCES  | 49      |
| 15      | 1999 ADMINISTRATIVE BUDGET AND USE OF EDI GRANTS                             | 52      |
| 16      | 1999 PROJECTED RESOURCE ALLOCATION PLAN -- CITY AND<br>COUNTY OF LOS ANGELES | 56      |
| 17      | LIST OF BORROWERS (AS OF SEPTEMBER 30, 1998)                                 | 58      |
| 18      | COMPARISON AND PLANNED RESULTS   | 57      |
| 19      | RECONCILIATION OF FINANCIAL RESULTS  | 60 - 61 |

## APPENDICES

| <b>Appendix</b> | <b>Description</b>                           | <b>Page</b> |
|-----------------|--|-------------|
| A               | PROJECTED RESOURCE ALLOCATION PLAN -- TOTAL  | A1-A11      |
| B               | PROJECTED RESOURCE ALLOCATION PLAN -- COUNTY | B1-B11      |
| C               | 1997 AUDIT                                   | C           |
| D               | CREDIT POLICY                                | D1-D39      |

## Section I

### EXECUTIVE SUMMARY

The 1999 Annual Business Plan for the Los Angeles Community Development Bank (*Not A Commercial Bank*) (LACDB) is provided in accordance with the requirements of: the Memorandum of Agreement (MOA) among the U.S. Department of Housing and Urban Development (HUD) and the City and County of Los Angeles; and the Comprehensive CDB Agreement among the City and County of Los Angeles and the LACDB.

The mission of the LACDB is to promote a positive investment environment and create/retain sustainable jobs for residents and others within the Los Angeles Empowerment Zone. The LACDB, working in partnership with community institutions, businesses, and civic leaders, provides non-traditional loans, venture capital, technical assistance and the linkages that successfully attract, start, and expand business opportunities.

The LACDB intends to achieve its mission by offering products and programs that will produce the intended outcomes of:

- Increasing jobs for local residents;
- Increasing the availability of loans and investment vehicles for business formation and expansion;
- Leveraging private sector investment in the EZ;
- Improving access to products and services; and
- Building the capacities of Financial Intermediaries and community development organizations.

In 1999, the LACDB plans to build upon 1998 accomplishments that included the following:

#### Exhibit 1

#### 1998 LOANS CLOSED (As of September 30, 1998)

| BUSINESS PLAN PROGRAM               | LOANS CLOSED |               |
|-------------------------------------|--------------|---------------|
|                                     | No.          | Amount        |
| <b>INDIRECT LENDING</b>             |              |               |
| Microloan Program                   | 16           | \$ 232,000    |
| Business Loan Program               | 1            | 500,000       |
| Commercial Real Estate Loan Program | 0            | --            |
| Venture Capital Program             | 2            | 1,000,000     |
| Subtotal                            | 19           | 1,732,000     |
| <b>DIRECT LENDING</b>               |              |               |
| Business Loan Program               | 11           | 8,456,000     |
| Commercial Real Estate Loan Program | 3            | 9,390,000     |
| Subtotal                            | 14           | 17,846,000    |
| CDO Equity Program                  | 0            | --            |
| <b>TOTALS</b>                       | 33           | \$ 19,578,000 |

## Section I

### EXECUTIVE SUMMARY

The 1999 Annual Business Plan for the Los Angeles Community Development Bank (*Not A Commercial Bank*) (LACDB) is provided in accordance with the requirements of: the Memorandum of Agreement (MOA) among the U.S. Department of Housing and Urban Development (HUD) and the City and County of Los Angeles; and the Comprehensive CDB Agreement among the City and County of Los Angeles and the LACDB.

The mission of the LACDB is to promote a positive investment environment and create/retain sustainable jobs for residents and others within the Los Angeles Empowerment Zone. The LACDB, working in partnership with community institutions, businesses, and civic leaders, provides non-traditional loans, venture capital, technical assistance and the linkages that successfully attract, start, and expand business opportunities.

The LACDB intends to achieve its mission by offering products and programs that will produce the intended outcomes of:

- Increasing jobs for local residents;
- Increasing the availability of loans and investment vehicles for business formation and expansion;
- Leveraging private sector investment in the EZ;
- Improving access to products and services; and
- Building the capacities of Financial Intermediaries and community development organizations.

In 1999, the LACDB plans to build upon 1998 accomplishments that included the following:

#### Exhibit 1

#### 1998 LOANS CLOSED (As of September 30, 1998)

| BUSINESS PLAN PROGRAM               | LOANS CLOSED |               |
|-------------------------------------|--------------|---------------|
|                                     | No.          | Amount        |
| <b>INDIRECT LENDING</b>             |              |               |
| Microloan Program                   | 16           | \$ 232,000    |
| Business Loan Program               | 1            | 500,000       |
| Commercial Real Estate Loan Program | 0            | --            |
| Venture Capital Program             | 2            | 1,000,000     |
| Subtotal                            | 19           | 1,732,000     |
| <b>DIRECT LENDING</b>               |              |               |
| Business Loan Program               | 11           | 8,456,000     |
| Commercial Real Estate Loan Program | 3            | 9,390,000     |
| Subtotal                            | 14           | 17,846,000    |
| CDO Equity Program                  | 0            | --            |
| <b>TOTALS</b>                       | 33           | \$ 19,578,000 |

As shown, through the 3<sup>rd</sup> Quarter 1998, the LACDB had closed 33 loans totaling approximately \$19.6 million. The LACDB maintains a "pipeline" of loan activity: (a) loans approved and in various stages of compliance clearance and/or loan documentation, and (b) loan requests in various stages of credit analysis and underwriting. At September 30, 1998, the "approved loan" portion of the pipeline totaled \$11.5 million, and the "loan request" pipeline totaled \$29.3 million. We expect to close approximately \$20.0 million in loans from our "pipeline" by the end of the 4<sup>th</sup> Quarter, bringing our year-end totals to approximately \$40.0 million in loans closed.

In the 3<sup>rd</sup> Quarter 1998, the LACDB inaugurated its third, and final, satellite office in the Boyle Heights community called the Greater Eastside Satellite Office. A permanent Commercial Loan Officer and Administrative Assistant staff the office. Through September 1999, the office will also be supported by Daniel Tellalian, an Echoing Green Foundation fellow, who will assist the LACDB with structuring and packaging commercial real estate transactions in the Eastside communities of the Empowerment Zone. The office will also be home to an Eastside economic alliance (in formation).

### **PEER BANK COMPARISON**

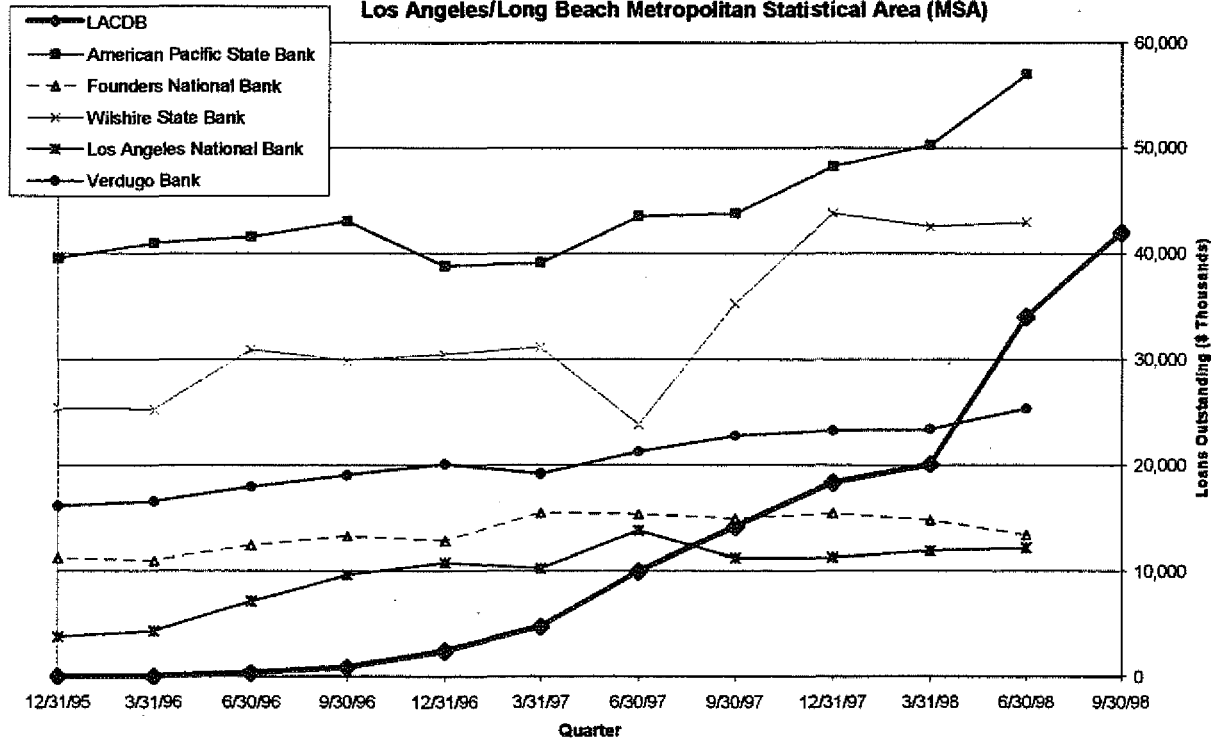
The LACDB's loan production has outperformed that of other alternative lenders in the region and state. To provide a further perspective on the LACDB's performance, we conducted a "peer bank" analysis, comparing loan production to conventional lenders serving similar markets. The criteria used to select the peer banks were:

- Bank is headquartered in the Los Angeles/Long Beach Metropolitan Statistical Area (MSA);
- It is an independent community bank;
- Bank's lending area is primarily the Los Angeles/Long Beach MSA;
- As of January 1997, bank had more commercial and industrial loans outstanding than the LACDB;
- Bank has record of commercial and industrial lending to small business including SBA loans; and
- It was active in local small business lending market since 1990.

The peer bank group includes: American Pacific State Bank, Founders National Bank, Wilshire State Bank, Los Angeles National Bank and Verdugo Bank. Broadway S&L and Brentwood S&L, two financial institutions serving the Empowerment Zone, were not included because they do not have significant commercial and industrial loan volumes. As illustrated below, the LACDB had the third largest loan portfolio in the group, behind American Pacific Bank (the most active SBA lender in the MSA) and Wilshire State Bank. The LACDB's growth rate surpassed all banks in the group. For the one-year period between 6/30/97 and 6/30/98, the LACDB grew at a rate of over 240 percent; American Pacific State Bank grew at 31 percent and Wilshire State Bank at 80 percent.

## Exhibit 2

### PEER BANK COMPARISON Commercial and Industrial Loans for Banks in the Los Angeles/Long Beach Metropolitan Statistical Area (MSA)



Source: Federal Reserve Bank-Office of Information, *Commercial and Industrial Loans at Commercial Banks, 1995-1998*

### DIRECT LENDING

Marketing efforts were principally reactive, with the lenders' responding to requests and referrals. The Dun and Bradstreet database of businesses in the Watts, Slauson Corridor, and Alameda Corridor was used as leads, which resulted in very few referrals (the Alameda Corridor is still being worked).

### INDIRECT LENDING

The Indirect Lending Programs are implemented through financial intermediaries of the LACDB. The major programs include the Microloan Intermediary Program, Business Loan Intermediary Program, Loan Packaging Services Provider Program, and the Business and Technical Support Program. Each is discussed below. In 1998, an Intermediary Program Assistant position was recruited and filled. The staff person will provide support in the area of contract administration and monitoring, as well as helping to implement the LACDB's technical assistance efforts to borrowers and financial intermediaries alike.

#### *Microloan Intermediary Program*

The Microloan Intermediaries are responsible for originating, underwriting and recommending loans ranging from \$1,000 to \$25,000. Additionally, Microloan Intermediaries are responsible for managing the post loan relationship between the LACDB and the borrower, and when necessary, provide the borrower with technical assistance in complying with the microloan covenants. Microloan Intermediaries are compensated on a per funded loan basis.

spoken to 514 EZ businesses about the program, which resulted in 10 applications to the LACDB (nine of which were approved and funded) totaling \$167,500. All these applications came from one Intermediary.

Program enhancements to the Microloan Intermediary Program were implemented in the March 98. These included 1) eliminating geographical boundaries so that Intermediaries could market and originate loans throughout the EZ, 2) expanding the number of Intermediaries, which resulted in increasing Intermediaries from three to four in May 1998, 3) increasing compensation from \$3,500 to \$5,000 per funded loan to reflect the actual costs of the program, and 4) identifying non-LACDB sources to fund technical assistance to microloan applicants, which resulted in the placement of four summer interns at FAME, CFRC, TELACU and VEDC/ELACC from July to September 1998.

Despite these efforts, no substantial increase in lending activity occurred. By July 31<sup>st</sup>, a total of \$156,100 microloans, all originated by the same Intermediary, had been funded (13 percent of the target goal). Staff conducted a one-year program evaluation in July 1998 and proposed recommendations designed to address those issues and concerns that hampered the productivity of the Intermediary Program. Recommendations addressed the various components of the lending process; loan application, loan approval, loan closing, and loan compliance. Recommendations include 1) provide funding for innovative outreach programs for the EZ business community, 2) identify and provide funding for pre-loan technical assistance, 3) streamline the microloan application process, 3) option to waive landlord's consent form and business insurance, and 4) option to implement quarterly financial reporting in lieu of monthly reporting for borrowers.

The LACDB Board of Directors and the LACDB Credit Committee approved these recommendations at their August 1998 Meetings. Recommendations were implemented by the end of the 3<sup>rd</sup> Quarter 1998. It is expected that these recommendations will lead to a 50 percent increase in lending activity during the 4<sup>th</sup> Quarter 98. Staff will be monitoring the program monthly to assess the effectiveness of these recommendations and to determine what additional factors, if any, may be contributing to the low volume of microloan applications.

The 1999 goal for microloan production is \$600,000. While still ambitious, the LACDB is committed to utilize the experience of 1998 to bolster its Intermediaries' ability to meet their projected volume.

#### *Business Loan Intermediary Program*

The Business Loan Intermediaries are responsible for originating, underwriting and recommending loans ranging from \$25,001 to \$500,000. Additionally, Intermediaries are responsible for managing the post loan relationship between the LACDB and the borrower during a period of two years. Business Loan Intermediaries are compensated on a per funded loan basis.

This program was launched September 1997 with two participating Intermediaries, expanding to seven Intermediaries in March 1998. The expansion was possible due to the Department of Corporations' waiver with respect to Commercial Finance Lender's Licenses. At the end of the 3<sup>rd</sup> Quarter, one loan had closed, which was originated by the Summit Group. Despite the low lending volume for 1998, the Business Loan Intermediaries reported investing significant time and resources on marketing, identifying prospects and developing a loan pipeline.

In the July 1998, staff conducted an evaluation of Business Loan Intermediary Program, the business loan Intermediaries outlined obstacles that hampered their ability to generate loan requests. These obstacles include (a) need for increased technical assistance for business loan applicants and (b) delays due to the frequency of the LACDB's credit approval cycle. At its August 1998 meeting, the LACDB Board of Directors approved the following recommendation: 1) increasing Intermediary compensation to cover the cost of technical assistance and loan packaging activities and 2) delegating authority to staff to approve loan requests below \$250,000.

Recommendations were implemented in the 3<sup>rd</sup> Quarter 1998. It is expected that these recommendations will lead to an increase in lending activity beginning in the 4<sup>th</sup> Quarter 1998. Staff will monitor the program on a monthly basis to assess the effectiveness of these recommendations and to determine what additional factors, if any, may be contributing to the low volume of business loan applications through the Intermediary Program.

The 1999 goal for Indirect Business Loan production is \$3.0 million. This is approximately 50 percent of the 1998 program goals. We believe the lending target is aggressive but can be achieved with the implementation of the recommended changes.

#### *Capacity Building*

The LACDB is committed to provide capacity building for financial intermediaries. To this end, the LACDB funded 2 two-day workshops for Microloan and Business Loan Intermediaries in 1998. The first series was a two-day workshop held May 14<sup>th</sup> and 15<sup>th</sup>, sponsored by California Resources and Training (CARAT) and the LACDB, on Microlending, Regulatory Compliance, and Credit Analysis/Underwriting Criteria. The second workshop, Small Business Finance and Underwriting, was led by the National Development Council on July 21<sup>st</sup> and 22<sup>nd</sup>. Both the May and July workshops were well attended.

#### *Loan Packaging Services (LPS) Program*

The Loan Packaging Services (LPS) Program was launched November 1997 with the intent of increasing the volume and deal flow of completed business loan applications. In addition, the LPS Program assists eligible businesses, at no charge to the business, with assembling the required paperwork and documentation necessary to apply for a loan. The LACDB contracted six LPS providers that would originate, screen, package, and present completed applications to the Business Loan Intermediaries (if request is at or less than \$500,000) and to the LACDB (for loan requests above \$500,000). A seventh LPS provider was added July 1998. As with the Financial Intermediary Program, LPS providers are compensated per funded loan and are not allowed to charge any fees.

As of September 30, 1998, the LPS Program had not generated any completed loan applications to either Business Loan Intermediaries or the LACDB. During a five-month period between May and September 1998, LACDB staff monitored five referrals to LPS service providers. These five referrals resulted in one declination, two withdrawn applications and one in process.

Staff expects some increase in loan volume in 1999 due to the additional LPS provider. In interviews with the providers, all indicated that the LACDB loan products are more difficult to market in comparison to other programs (e.g., SBA loan guarantee program, the California Economic Lending Initiative (CEDLI) program, and commercial bank's regular loan programs). Thus, LPS providers will only refer potential borrowers to LACDB when there are no other lending options available. In the 2<sup>nd</sup> Quarter 1999, LACDB staff will conduct a program evaluation to identify and implement any necessary changes to improve activity levels.

#### *Business and Technical Support Intermediary Program*

The Business and Technical Support Intermediary Program (TA Program) provides specific business assistance and consulting services to business loan borrowers during the critical two years following loan funding. Borrowers may request technical assistance in five business management areas: 1) Financial Management, 2) Operations, 3) Marketing and Positioning, 4) Human Resources, and 5) Special Needs. The TA Program is designed to give the borrower flexibility and alternatives in selecting the most appropriate TA provider.

The TA Program was launched March 1998 with eight organizations, consisting of both non-profit and for-profit entities experienced in the areas of general business management and consulting. As of September 30, 1998, three borrowers had requested technical assistance in the area of financial management. Requests for TA from microloan borrowers are referred to originating Microloan Intermediary, who provides technical assistance as part of their agreement with the LACDB.

Staff will complete an assessment of the TA Program by the 1<sup>st</sup> Quarter 1999 to determine how the technical assistance services can be better utilized and implement appropriate recommendations by the 2<sup>nd</sup> Quarter 1999.

#### *Commercial Real Estate Loan Intermediary Program*

The Commercial Real Estate Loan Intermediary Program (CRE Program) was scheduled for development and implementation in the 3<sup>rd</sup> Quarter 1998. A Request for Proposal (RFP) was issued May 1998 to seven interested organizations that had previously responded to the RFQ. The RFP response deadline was June 30, 1998. No proposals were received; interested organizations stated that the LACDB's product is not competitive with other programs -- specifically the SBA's 7(a) and 504 Programs. Additional comments provided were: (1) SBA 7(a) loans do not require job creation, (2) both SBA programs provide up to 90 percent financing, and (3) both SBA programs require Phase I Environmental and appraisals precedent to loan funding, while LACDB requires both prior to loan approval.

The LACDB is directly underwriting all commercial real estate loans and will monitor demand for such loans of less than \$1.0 million. As of September 30, 1998 the LACDB had received five loan requests in this range: one was declined, two were withdrawn, and two are still in process. The 1999 Business Plan does not anticipate an Indirect Commercial Real Estate Loan Program. During 1999, LACDB staff will revisit the matter and, as appropriate, reissue the RFP.

Additional detail on 1998 Accomplishments are contained in the "Accomplishments to Date" (Section X) of the Business Plan.

#### **VENTURE CAPITAL PROGRAM**

The Venture Capital program was implemented in the 2<sup>nd</sup> Quarter 1998 with the selection of Draper Fisher Jurvetson (*d.b.a.* Zone Ventures LLC) as Investment Manager for the LACDB Venture Capital Fund. Zone Ventures plans to focus on high technology firms that can relocate to the Empowerment Zone. As of the 4<sup>th</sup> Quarter 1998, negotiations were continuing with a second potential Investment Manager that would focus on operating companies in need of expansion venture capital.

#### **1999 ANNUAL BUSINESS PLAN**

The 1999 Annual Business Plan is a combination Annual Business Plan, Performance Report and Projected Resource Allocation Plan (PRAP).

The experience gained during its second full year of operation in 1998 helps to clarify the challenges and opportunities confronting the LACDB in its effort to progressively pursue its mission.

Businesses seeking LACDB financing are required to:

- Demonstrate denial of traditional credit elsewhere;
- Create/retain one job for each \$35,000 of capital provided; and,
- Hire EZ residents for at least 51 percent of the jobs created/retained.

The LACDB must also incorporate in its planning and program design the impact of the material differences in population density, education and income of EZ residents in comparison to the Los Angeles Metropolitan Area. The LACDB has addressed these and other relevant factors in the preparation of the 1999 Annual Business Plan.

The 1999 Annual Business Plan is organized under the following major headings: Mission Statement; Management and Organization Plan; Product Description; Marketing Plan; and Financial Plan.

## **Management and Organization Plan**

A listing of LACDB staff positions, an organization chart, and a list of the members of the LACDB Board of Directors are contained in this section of the Business Plan.

The LACDB has undertaken an extensive recruitment effort to identify qualified EZ applicants for employment with the LACDB. Although the LACDB has been only partially successful in recruiting EZ residents through this effort, a highly competent and committed staff has been assembled to pursue the LACDB mission. For 1999, the staffing level will increase by one position to 36 (Workout Loan Specialist). All open positions will be filled by the end of the 1<sup>st</sup> Quarter 1999.

## **Product Description**

The LACDB's basic products include Microloans (\$1,000 to \$25,000), Business Loans (\$25,001 to \$10,000,000), Commercial Real Estate Loans (\$25,001 to \$10,000,000), Venture Capital (up to \$2.0 million per business). The products are marketed indirectly through financial intermediaries and directly by LACDB loan officers.

Utilization of Direct and Co-Lending will help the LACDB to diversify its risk and to leverage its funds. The Indirect Lending Program has as its dual purpose, the utilization of existing financial/technical assistance Intermediaries to generate loans and the enhancement of the Intermediary's capacity to better serve their clients. The detailed description of both approved and planned products are contained herein.

## **Marketing Plan**

The LACDB Marketing Plan is continually evolving: the Plan will be revised, edited and/or expanded as more is learned about the EZ and SZ market environment. In 1999, the LACDB will also increase its marketing efforts in the Supplemental Section 108 Area (census tracts of the city where 70 percent or more of the residents are low- and moderate-income). The LACDB has developed a multi-faceted approach to targeting individual business firms and industries, and, will utilize the networks of Co-Lenders, Financial Intermediaries, and Service/Technical Assistance Providers. The LACDB marketing strategy includes the utilization of targeted research and the development of collateral materials to enhance communication of LACDB programs and products to the many stakeholders and interested parties that comprise the LACDB market.

The primary strategies consist of strategic alliance with the following entities or programs:

- Los Angeles Prosper Partners (focus on 9 existing job-intensive industries in the EZ);
- LA's Business Team (coordinating efforts aimed at capturing new job-generators within LACDB's market area);
- New Los Angeles Marketing Partnership (LAMP);
- Collaboration with local and regional economic development initiatives (i.e., Los Angeles Community Redevelopment Agency and the Los Angeles Community Development Department);
- Coordinating activities with the Targeted Neighborhoods Initiatives (TNI), the Los Angeles Neighborhood Initiative (LANI), and the Alameda Corridor;
- Linking LACDB-funded business firms with work-force training resources and new market opportunities.

A customized business database has been procured from Dun & Bradstreet. The database, consisting of 8,000 businesses in the EZ, SZ and Supplemental Section 108 Area, includes information on businesses by size, SIC, revenue, number of employees, and other data. The database will be used to target product development and marketing efforts to LACDB's market area.

The details of these strategies and methods of implementation are outlined herein.

### Financial Plan

The Financial Plan describes the resources required to support Management activities in pursuit of the LACDB mission. The Projected Resource Allocation Plan (PRAP) reflects the 1999 goal of \$51.6 million in loan production/investment, and outlines the corollary outlay of funds to support program delivery.

#### 1999 PROJECTED CLOSINGS

| <b>PROGRAM</b>                     | <b>AMOUNT</b>               |
|------------------------------------|-----------------------------|
| <b>Empowerment Zone Funds</b>      |                             |
| Microloans                         | \$ 600,000                  |
| Business Loans (Indirect)          | 3,000,000                   |
| Venture Capital (Indirect)         | 8,000,000                   |
| Business Loans (Direct)            | 10,000,000                  |
| CDO Equity Program                 | <u>2,000,000</u>            |
| <b>Subtotal</b>                    | <b>38,600,000</b>           |
| <b>Supplemental Sec. 108 Funds</b> | <b><u>13,000,000</u></b>    |
| <b>TOTAL</b>                       | <b><u>\$ 51,600,000</u></b> |

The Financial Plan also presents the 1999 LACDB Budget and the 1997 audited financial statements for reporting and comparison purposes.

The 1999 LACDB Budget is \$3.7 million. This compares with the 1998 Business Plan Budget of \$3.6 million. The \$100,000 increase is attributable to additional staffing, following a 1998 critical review of operations and implementation of necessary adjustments to achieve greater efficiency, accountability and cost-savings. We also expect to achieve increased productivity and efficiency, due in part, to the introduction of the Intermediary Programs.

Taken in its entirety, the 1999 Annual Business Plan provides a report on 1998 programs and accomplishments; and the 1999 goals and objectives for the LACDB. It also offers courses of action and allocation of resources for meeting the LACDB's goals.

**Section II**

**MISSION STATEMENT**

**MISSION STATEMENT**

**The mission of the Los Angeles Community Development Bank (LACDB) (*Not A Commercial Bank*) is to promote a positive investment environment and sustainable jobs for residents and others within the Los Angeles Empowerment Zone. The LACDB, working in partnership with community institutions, businesses, and civic leaders, will provide non-traditional loans, venture capital, technical assistance and the linkages that successfully attract, start, and expand business opportunities.**

### Section III

#### HISTORICAL BACKGROUND

The economically challenged communities of Los Angeles have struggled to attract and retain job-creating businesses. Access to capital for new or growing businesses has remained a substantial roadblock. Commercial banks function under regulatory guidelines concerning credit risk that generally make it difficult to make loans to start-ups or development-stage businesses lacking sufficient equity or collateral. In California, small businesses account for 50 to 60 percent of all jobs. Accordingly, the critical lack of capital available for such businesses has had a devastating effect upon job-starved communities – i.e., no capital or jobs.

Recognizing the tremendous need and opportunity for economic development in the Los Angeles communities, the Clinton Administration in 1995, expanded its original Empowerment Zone (EZ) and Enterprise Community Program to include a new Supplemental Empowerment Zone (SEZ) designation for a portion of Los Angeles. In February 1998, the L.A. SEZ was awarded full Empowerment Zone status and will have the full benefits of the federal tax credits in place in the year 2000.

Geographically, the zone encompasses a 19-square mile area of neglected, low-income communities that include Pacoima, Boyle Heights, the East Downtown Corridor, the Historic Central Corridor, Central Avenue, the Slauson Industrial Corridor, the Broadway District, Watts, Firestone, and Willowbrook and a one-mile area from the outermost boundaries of the EZ census tracts. The EZ designation made the City and County of Los Angeles eligible for special economic development funding through the United States Department of Housing and Urban Development (HUD) to create and capitalize a unique community development bank in Los Angeles.

In 1995, HUD began working in close partnership with the City and County of Los Angeles, as well as commercial banks and community lenders, to plan the establishment of the LACDB. A fundamental goal in forming the LACDB was to harness the energy being spent on economic development in the zone – by non-profit and for-profit community groups and commercial banks' Community Reinvestment Act Programs, as well as elected officials and local government agencies – and to focus those efforts into a single, cooperative economic development strategy for the EZ.

By November 1995, HUD approved the final agreements with the City and County of Los Angeles for the formal creation of the LACDB. A 15-member Board of Directors was appointed to oversee the hiring of a full-time staff, develop credit policy and lending procedures, and steer the LACDB toward its lending goals.

In early 1996, the LACDB was created as a non-profit corporation and received its Internal Revenue Code Section 501(c)(3) non-profit corporation status and its State of California Finance Lender's License. In May 1996, after an extensive national search, the Board of Directors selected C. Robert Kemp to be the LACDB's first Chief Executive Officer; Mr. Kemp assumed the helm of the LACDB in June 1996.

## Section IV

### MANAGEMENT AND ORGANIZATION PLAN

#### Overview

Since its inception, the LACDB has undertaken extensive recruitment efforts in an effort to identify qualified individuals living in the EZ to staff the organization. Set forth below is a list of the LACDB's proposed staff positions and a current organization chart (see Exhibit 1). It is the LACDB's objective to hire the best-qualified individuals for each position at a competitive salary level. It is Management's intent that all employees be trained to work as a team and complement each other's responsibilities. Cross training and the team concept are therefore major operating principles of the LACDB.

Staffing for the LACDB has been augmented to ensure its ability to deliver the programs envisioned by its proponents, and, to insure its compliance with the federal regulatory requirements. In the LACDB's early years, an outside public relations firm was primarily responsible for media relations, developing the LACDB's promotional materials and coordinating a variety of outreach events. As a result of the LACDB's need to undertake a more aggressive marketing and outreach strategy, the CEO has assumed responsibility for marketing and communications, aided by LACDB specialists. The LACDB will contract for public relations services to handle external media relations. Additional staff will be hired only as the LACDB's products and programs become active and the volume of loans and investments justify the positions.

#### Recruitment Efforts

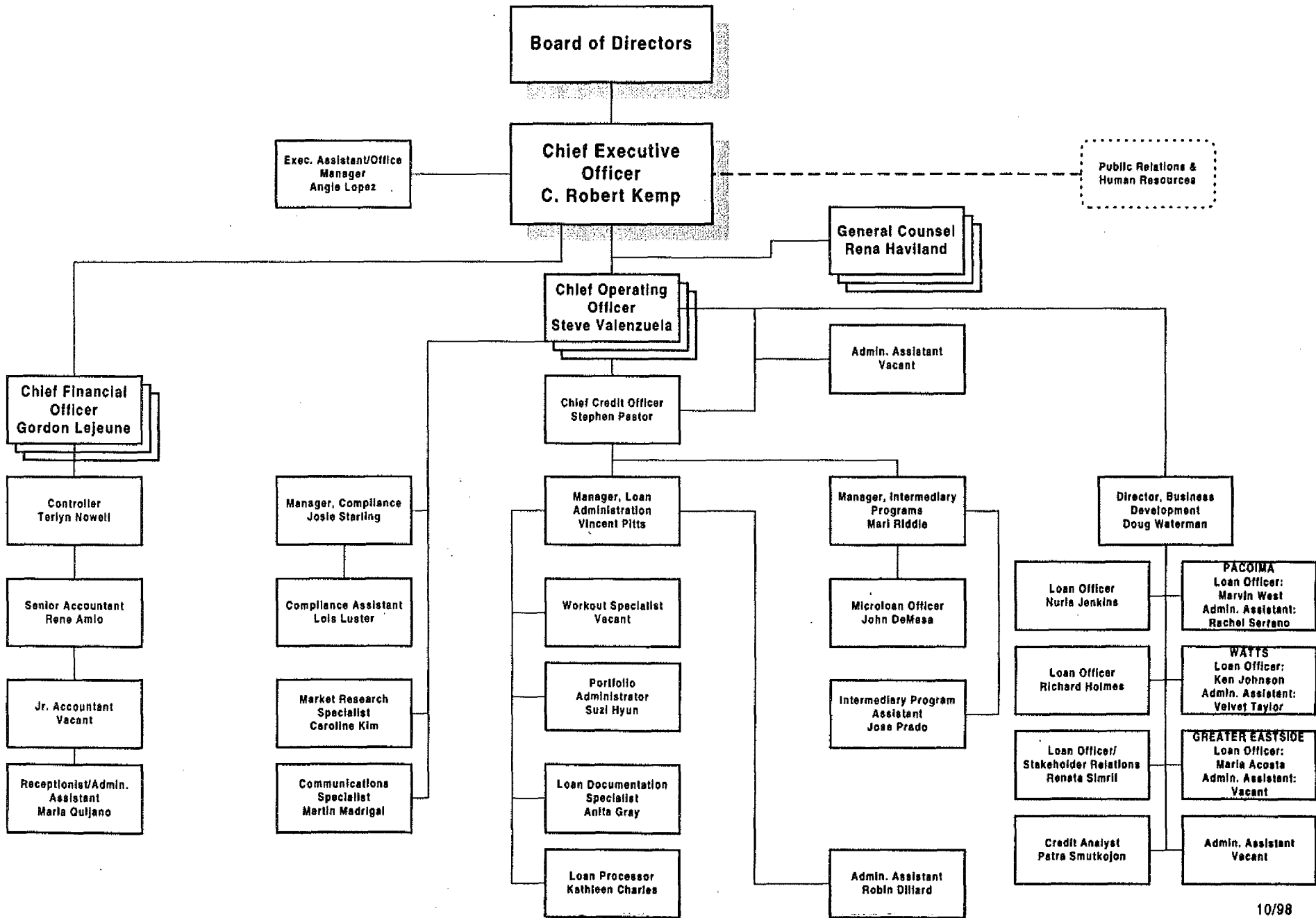
The LACDB has made extensive efforts to meet its goal of hiring 51 percent of its employees from the EZ, to the extent permitted by law. To find qualified employees, who also reside in the EZ, the LACDB has used local employment agencies, contacted City Council field offices, and placed advertisements in EZ community newspapers (including those in Spanish, Korean and other languages, as appropriate).

#### Schedule of Staff Positions

The LACDB will continue to make a concerted effort to find qualified employees to fill its remaining vacant staff positions and provide training as appropriate to residents of the EZ. LACDB present and proposed staff positions are listed in the following chart:

Los Angeles Community Development Bank  
(Not A Commercial Bank)

Organization Chart



**Exhibit 4**

**LACDB Staffing, by Position**

| No. | Position Title                                       |
|-----|--|
| 1   | President and Chief Executive Officer                |
| 2   | Executive Vice President and Chief Operating Officer |
| 3   | General Counsel                                      |
| 4   | Chief Financial Officer                              |
| 5   | Chief Credit Officer                                 |
| 6   | Executive Assistant/Office Manager                   |
| 7   | Administrative Assistant (vacant)                    |
| 8   | Controller   |
| 9   | Senior Accountant                                    |
| 10  | Junior Accountant (vacant)                           |
| 11  | Receptionist/Administrative Assistant                |
| 12  | Manager, Business Development                        |
| 13  | Senior Commercial Loan Officer/Indirect Loan Officer |
| 14  | Commercial Loan Officer                              |
| 15  | Commercial Loan Officer/Stakeholder Relations        |
| 16  | Credit Analyst                                       |
| 17  | Commercial Loan Officer (Pacoima)                    |
| 18  | Administrative Assistant (Pacoima)                   |
| 19  | Commercial Loan Officer (Watts)                      |
| 20  | Administrative Assistant (Watts)                     |
| 21  | Commercial Loan Officer (Greater Eastside)           |
| 22  | Administrative Assistant (Greater Eastside)          |
| 23  | Administrative Assistant (vacant)                    |
| 24  | Manager, Compliance                                  |
| 25  | Compliance Assistant                                 |
| 26  | Manager, Intermediary Programs                       |
| 27  | Microloan Officer                                    |
| 28  | Intermediary Program Assistant                       |
| 29  | Manager, Loan Administration                         |
| 30  | Portfolio Administrator                              |
| 31  | Workout Specialist (Proposed)                        |
| 32  | Loan Documentation Specialist                        |
| 33  | Loan Processor                                       |
| 34  | Administrative Assistant                             |
| 35  | Market Research Specialist                           |
| 36  | Communications Specialist                            |

**Employee Diversity**

The LACDB strives to have a staff that reflects the diversity of the communities it serves and continues to ensure that ethnic diversity exists within the staff. The table below shows the ethnic composition of the staff.

## Exhibit 5

### LACDB Staff Diversity

| Ethnicity                 | Number    | Percent       |
|---------------------------|-----------|---------------|
| African American          | 12        | 40.0%         |
| African American/Japanese | 1         | 3.3           |
| Asian - Korean            | 2         | 6.7           |
| Asian - Filipino          | 1         | 3.3           |
| Asian - Thai              | 1         | 3.3           |
| Caucasian                 | 4         | 13.3          |
| Latino                    | <u>9</u>  | <u>30.0</u>   |
| <b>Totals</b>             | <b>30</b> | <b>100.0%</b> |

Additionally, efforts continue to hire staff fluent in Spanish, Korean, Tagalog, Thai and other languages spoken by EZ business owners and residents. Aiding the LACDB in this regard are the Microloan and Business Loan Intermediaries that possess extensive language skills.

### SIGNIFICANT ORGANIZATION AND STAFFING MATTERS

In 1998, the LACDB fully implemented a series of organizational changes designed to increase loan production, comply with HUD and other regulatory requirements, and manage its growing portfolio of loans and investments. In the following section, we provide a summary of key changes.

#### Business Development Department

In March and April 1998 the Business Development Team increased its staff by hiring three additional lenders and one credit analyst. In August 1998, an additional lender was added who is responsible for business development and assistance with stakeholder relations.

#### Intermediary Programs Department

In the 3<sup>rd</sup> Quarter 1998, the vacant Intermediary Program Assistant position was recruited and filled. The staff person will provide support in the area of contract administration and monitoring, as well as helping to implement the LACDB's technical assistance efforts to borrowers and financial intermediaries alike.

#### Compliance Department

With the hiring of a Compliance Assistant in February 1998, the Compliance Department reached full staffing. This department was established to ensure the LACDB's adherence to the CDB Comprehensive Agreement and other regulatory, statutory and program requirements. This department also monitors compliance of borrowers with the LACDB's job creation requirements.

#### Job Creation

The Compliance Department is responsible for the monitoring and reporting of job creation efforts by loan recipients. Job creation is monitored on a monthly basis. Activity is reported to the County Community

Development Commission and the City Community Development Department through Quarterly Grantee Performance Reports which, in turn, are compiled by these two agencies for submission to the U.S. Department of Housing and Urban Development.

In 1998, the LACDB identified a need to become more pro-active in assisting borrowers identify eligible Empowerment Zone employees. A working group was organized with the assistance of the City's Community Development Department, which is called the "Job Linkage Taskforce". The Taskforce was charged with the task of streamlining the process for matching LACDB borrowers with qualified Empowerment Zone residents seeking jobs. The Taskforce is comprised of representatives from the LACDB, City Community Development Department, California Employment Development, and three One-Stop Workforce Development Centers strategically located in the Empowerment Zone (i.e., CHARO CDC, El Proyecto del Barrio, Inc., and UAW-Labor & Employment Training Corporation). With the aid of CDD-funded facilitator, the Taskforce developed a written process to accomplish the identified task. The process was implemented in the 3<sup>rd</sup> Quarter 1998, and is in use by the three identified One-Stop Workforce Development Centers. In time, the process will be rolled out to all 15 One-Stops operating in the City of Los Angeles.

The California Employment Development Department has provided the LACDB with special access to its CALWORKS system (an Internet-based service for employers who want to fill job openings and individuals seeking employment) as an additional resource in helping borrowers to identify qualified Empowerment Zone residents. The Compliance Department has also developed strategic alliances with the Greater Avenues to Independence (GAIN) program operated by the County Department of Social Service. This program implements the County's Welfare-to-Work program.

#### *Policies and Procedures*

In 1998, the Compliance Department finalized and submitted the LACDB's post-funding compliance policies and procedures. These procedures had been developed in close consultation with the County Community Development Commission and City Community Development Department. The post-funding compliance procedures are in effect.

LACDB is committed to honoring all requirements passed on by the City and County, particularly those relating to the environment and historical preservation. The policies and procedures provide bank staff with the tools to ensure that all projects funded by the LACDB are within the required guidelines.

The department has developed a positive working relationship with key individuals at the City Community Development Department and County Community Development Commission. This has led to improved response time in the area of loan funding clearances. For non-exempt transactions (i.e., loan requests that do not implicate Federal Labor Standards and other areas), the turnaround time is typically 48 hours. Microloan requests (almost always exempt transactions) are cleared with 24 hours. Once written clearance is obtained, the LACDB can issue commitment letters to business loan applicants, and fund loans in the case of microloan borrowers.

#### *Training*

The Compliance Department conducts workshops on HUD eligibility criteria, job creation and related policies and procedures for the benefit of LACDB lenders and Financial Intermediaries. In addition, the Compliance Department meets with loan applicants and borrowers to educate them on the HUD eligibility criteria and job creation monitoring.

Beginning in 1998, the LACDB increased its effort to market commercial real estate loans to business located in eligible census tracts. The Compliance department received additional training regarding compliance with the Davis-Bacon Act, Federal Labor Standards and related areas. The LACDB's policies and procedures were modified and distributed to affected parties.

## **Loan Administration**

In the 3<sup>rd</sup> Quarter 1997, the LACDB Board of Directors and Management recognized the need for more active management of the LACDB's growing loan portfolio, and created the Loan Administration Department. The department includes the following positions: Manager of Loan Administration, Portfolio Administrator, Documentation Specialist, Loan Processor and Administrative Assistant. In 1999, Loan Administration request the addition of a Workout Specialist to provide specialized assistance with problem loans.

The Department has four primary functions:

- **Portfolio Administration** – The primary objective of portfolio administration is to monitor individual loans and provide early identification of potential problems. Loans made by the LACDB have a greater credit risk than those of a conventional lender and, thus, require close supervision and immediate remedial action. In the 3<sup>rd</sup> Quarter 1998, Loan Administration implemented a loan grading system, and provides regular monthly reports on the condition of the portfolio to LACDB management, the Credit Committee and the Board of Directors

The portfolio administrator regularly analyzes the monthly, quarterly and annual financial statements submitted by borrowers, focusing on any deterioration in the borrower's ability to repay. The portfolio administrator also monitors for such early warning signals as checks returned for insufficient funds, canceled telephone service, and delayed financial information. The portfolio administrator also maintains a tickler system to remind borrowers of dates to submit UCC filings, proof of insurance, financial statements, and job creation documentation.

- **Problem Credit Management** – All problem credits fall under the jurisdiction of Loan Administration. Problem credits are defined as loans: (i) 31-plus days past due, (ii) have had payments returned for insufficient funds (NSF), (iii) where financial information provided to LACDB identifies borrower's inability to meet contractual terms for repayment, or (iv) that have been subject of a troubled debt restructuring in the prior six months.
- **Loan Servicing** – This function includes loan accounting, payment invoicing, payment processing and collections, and maintenance of loan files. In this area, the bank has established procedures for disbursement of funds, collection procedures and the boarding of loans.
- **Documentation** – This function includes the preparation of loan documents. Following receipt of written clearance from the City or County with regard to Environmental, Federal Labor Standards, and Relocation Assistance (the so-called "Big-Three") HUD compliance matters, the loan file is transmitted to the loan documentation specialist who prepares loan documents, with the aid of legal counsel. Following lien perfection and other matters, loan documents are executed, recorded and originals deposited with the Collateral Agent.

**Section V**  
**GOVERNANCE**

The LACDB is governed by a 15-member Board of Directors. The LACDB Board is comprised of a diverse group of business and community leaders with experience in community and economic development activities. There are 7 Public and 8 Private Directors. Six of the Public Directors are appointed by the Mayor, based on recommendations from the Los Angeles City Council, and one is appointed by the County of Los Angeles Board of Supervisors. The Incorporators and University Presidents appoint the Private Directors. The Board of Directors for 1999 is identified below.

**Board of Directors**

**Debra S. Esparza**, formerly Director of the USC Business Expansion Network, and a principal of Esparza & Associates.

**Denise Fairchild, Ph.D.** is President of the Community Development Technologies Center at Los Angeles Trade Technical College.

**John M. Gallarza** is a Assistant Vice President and Relationship Manager at Santa Monica Bank.

**Ron Gastelum** is Chief Administrative Officer of BKK Corporation.

**David Gonzales** is an Executive Vice President at Wells Fargo Bank.

**Antonio Gonzalez** is President of the Southwest Voter Registration Education Project & the William C.Velasquez Institute.

**Ozie B. Gonzaque** is Chairperson of the City of Los Angeles Housing Authority Commission.

**Christopher W. Hammond** is President of Capital Vision Equities.

**Raul Molina** is an EZ resident and owner of RAMA Services.

**Alfred E. Osborne, Jr., Ph.D.** is Director of the Harold Price Center for Entrepreneurial Studies and an Associate Professor of the Anderson School at UCLA.

**Luis D. Rojas** is an EZ resident and President of ProTerra Real Estate Services.

**Peter Taylor** is a Vice President at Lehman Brothers.

**Teryl Watkins** is an EZ resident President and Director of Development of the Watts Labor Community Action Committee.

**Charles Woo** is co-owner and Chief Executive Officer of Megatoys.

Currently, there is one (1) Private Board member position available.

## Section VI

### PRODUCT DESCRIPTION

#### Overview

There must be a direct link between Section 108 funded programs and EDI funded programs, enhancing the security of the Section 108-assisted activity, or improving the viability of the project financed with Section 108 funds. The viability of the LACDB and HUD's security will be enhanced to the extent that the LACDB is able to create a diversified portfolio.

The LACDB Business Plan includes the following financing programs -- Microloans, Business Loans, Commercial Real Estate Loans, Venture Capital and the CDO Equity Program -- thereby reducing the risk of loss that might be associated with the lack of success in a particular program.

By using a variety of programs, the LACDB can diversify its portfolio among different industry groups, types and sizes of businesses, again reducing the risk of loss that might be associated with a particular business due to changes in economic or market conditions. This type of diversification is particularly important given the geographic concentration of the LACDB portfolio.

A sophisticated financial model was used to develop the ideal composition of the portfolio, taking into account the original needs assessment of the community and differences in risk of loss associated with the various programs. It was assumed, based upon the experience of other non-traditional lenders, that certain programs such as the Microloan Program, would experience higher rates of loss than other programs, but would more likely meet the needs of many of the smaller businesses in the EZ. Other programs, such as Venture Capital, will create a higher volume of jobs and greater return to the LACDB in the long term, but pose more risk than loans to larger established businesses. By combining Microloan, Business Loans and Venture Capital in the same portfolio, the LACDB may prudently assume greater risk without threatening the viability of the LACDB or HUD's security.

The products utilized by the LACDB for Direct and Indirect Lending are described in this section.

#### DIRECT LENDING

##### Business Loans and Commercial Real Estate Loans

The Direct Lending Program provides commercial loans to existing businesses. Business loans range from \$500,001 to \$1.0 million to a single obligor, approved by the Credit Committee of the Board and up to \$20.0 million to a single obligor, if approved by the Board. Commercial Real Estate Loans range from \$25,001 to \$10.0 million to a single obligor, approved by the Credit Committee, and up to \$20.0 million to a single obligor, if approved by the Board.

- *Products.* The following products are utilized by the LACDB. They include, but are not necessarily limited to the following:
  - *Business Loans.* These commercial loans to eligible businesses can finance the expansion of existing operations, acquisition of new plant facilities, business acquisitions, franchise acquisitions and expansion, cooperatives, startups, employee ownership programs (ESOPs), equipment purchases, permanent working capital and to finance the relocation of businesses wishing to move into loan eligible areas of the LACDB. Loan terms may range from 1 to 20 years, depending on the transaction.

- *Commercial Real Estate Loans.* This program will fund projects that not only create permanent jobs, but also provide goods and services not otherwise available or eliminate slums and blight. Eligible projects include those that target vacant lot revitalization, underutilized property development, rebuild and rehabilitation projects and the commercial portion of mixed use projects; it will also fund the acquisition of property and plant facilities for development into incubator space and industrial parks. Terms may range from 1 to 20 years, depending on the transaction.
- *Eligibility.* For loans under these Direct Lending Programs:
  - If Section 108 Program funds (together with EDI grant funds) are used, the following *Public Benefit* requirements must be satisfied: (1) the business must be located in the EZ (a higher priority will be given to those businesses located in the EZ or wishing to locate into the EZ); (i) 51 percent of the jobs created must be held by persons living in the EZ; or (ii) 51 percent of the employees retained must live in the he EZ; or
  - If Supplemental Section 108 Program funds are used, and as more fully described in 24 CFR 570, the following requirements must be satisfied: (1) 51 percent of the jobs created must be made available to persons living in a census tract that has 70 percent or more residents that earn low-to-moderate incomes (a "HUD-eligible census tract"); or (2) 51 percent of the jobs retained must be for individuals living in HUD eligible census tracts. EDI Grant Funds may not be used to fund any program delivery expenses relating to the use of these moneys outside of the EZ for any of the program components described in paragraph.
  - must create or retain one job for every \$35,000 borrowed;
  - must successfully complete and pass an environmental check as required by federal regulations;
  - must require borrower to agree to receive lending technical assistance and monitoring after the loan is made;
  - requires, at a minimum, personal guarantees of the owners of 20 percent or more of the business; and,
  - for construction projects, must comply with the Davis-Bacon Act prevailing wage requirements.
- *Application for Loans.* Businesses may apply for direct loans by contacting the LACDB. A loan officer will determine eligibility and discuss the loan request with the prospective borrower. If pre-lending technical assistance is required to prepare the application and supplemental information, the loan officer may refer the potential applicant to pre-lending technical assistance providers.

## INDIRECT LENDING

### Financial Intermediaries

This program involves loans made to borrowers by Financial Intermediaries. Financial Intermediaries in the Microloan Program originate and underwrite loans, ranging from \$1,000 to \$25,000, to very small businesses. Financial Intermediaries in the Business Loan Program originate and underwrite commercial loans ranging from \$25,001 to \$500,000.

- *Products.* The following products will be utilized by the LACDB. They include, but are not necessarily limited to the following:
  - *Microloans.* Loans to eligible businesses to finance business startups, expansion and growth, equipment acquisition, and working capital.
  - *Business Loans.* Loans to eligible businesses to finance expansion of existing and acquisition of new plant facilities (including land), business acquisitions, franchise acquisitions and expansion, cooperatives startup and expansions, employee ownership programs, equipment purchases, and permanent working capital and to finance the relocation of businesses wishing to move into loan eligible areas of the LACDB. Loan terms may range from one to twenty (1-20) years, depending on the transaction.
- *Eligibility.* Loans under this program:
  - must meet the following *Public Benefit* requirements: (1) the business must be located in the EZ (a higher priority will be given to those businesses located in the EZ or wishing to locate in the EZ); (2) (i) 51 percent of the jobs created must held by persons living in the EZ; or (ii) 51 percent of the employees retained must live in the EZ;
  - must create or retain one job for every \$35,000 borrowed;
  - must successfully complete and pass an environmental check as required by federal regulations;
  - must agree to lending technical assistance and monitoring after the loan is made; and,
  - require, at a minimum, personal guarantees of the owners of 20 percent or more of the business.
- *Application for Loans.* Businesses may apply directly to the LACDB Financial Intermediaries. The Intermediaries will perform marketing and outreach to target business constituencies, screen prospective borrowers for HUD compliance, assist with packaging loans, underwriting loans and recommending loans for consideration by the LACDB. Under the Credit Analysis and Presentation (CAP) phase, the LACDB will approve and fund all indirect loans. Following the funding of approved loans, intermediaries will provide 2 years of post-loan relationship management services.

### Business and Technical Support Program

The LACDB's Business and Technical Support Program achieves two purposes. First, to assist LACDB borrowers to successfully enhance the economic viability of their business ventures in the EZ and SZ, resulting in sustainable permanent jobs for EZ residents. Secondly, to assist borrowers to enhance operational performance, thereby further mitigating the risk of the LACDB's portfolio.

- **Products.** The method for providing technical assistance is as follows:

- **Pre-Loan Technical Assistance.** The LACDB loan officers (direct loans) or Financial Intermediary (indirect loans) will assess the pre-loan technical assistance needs at the time of initial interview and, if necessary, refer potential borrowers to business assistance providers. These business assistance providers are funded by the City of Los Angeles Community Development Department (CDD) through Community Development Block Grants (CDBG), the State Department of Commerce, the U.S. Department of Commerce Economic Development Administration and the Minority Business Development of the U.S. Department of Commerce. The LACDB has developed the Loan Packaging Services (LPS) Program designed to assist loan applicants with loan packaging needs. In the LPS Program, the LACDB contracts with qualified service providers that originate, screen, package, and present completed loan applications to Business Loan Intermediaries (if request is at or less than \$500,000), and to the LACDB (for loan requests over \$500,000);
- **Post-Loan Technical Assistance.** The Business and Technical Support Intermediary Program provides specific business assistance and consulting services to borrowers in the critical 2 years following loan disbursement. The LACDB has retained a panel of Business and Technical Support Intermediaries that are experienced in financial management, operations, receivables management, marketing and sales, human resources and other specialized areas. The borrower's need for business assistance may be identified by one or more of the following sources: the borrower, the Financial Intermediary, a LACDB loan officer or LACDB loan portfolio administrator. Potential triggers for business technical assistance include, but are not limited to the following:
  - Identification of a business problem or issue, e.g., irregular pattern of repayments, inaccurate financial statement, inability to meet sales projections, etc.
  - Non-performance and/or default on the repayment provisions of the loan;
  - Non-performance of HUD compliance requirements (i.e., job creation and hiring of EZ residents.

In such cases, the borrower is provided with a list of at least three Intermediaries that can address the deficiency noted. The borrower will discuss the matter with the Intermediaries, selecting the Intermediary most suitable to address its needs. The borrower will have sole discretion in procuring the services of the LACDB-qualified Intermediary. The Intermediary's proposed scope of work shall be developed with the borrower's input. The scope of work will be time-specific and results oriented. Compensation (the product of a negotiated rate structure between the Intermediary and LACDB) will come from the borrower, a portion of which is reimbursed by the LACDB.

### **Capacity Building**

The LACDB also recognizes the importance of enhancing and building the capacity of its Financial Intermediaries.

- **Products.** The LACDB has identified several methods for supporting and enhancing the capabilities of Financial Intermediaries, including:
  - **Program Delivery.** LACDB specialists will provide the Financial Intermediaries with specialized training, including compliance with HUD eligibility criteria and the underwriting of loans for the LACDB.

- *Organizational Capacity Building.* A second capacity building track is being developed in conjunction with the City of Los Angeles Community Development Department (CDD). Under discussion is training that addresses the lending focus and experience of different organizations, their staff, and their board of directors. Ideally, the Capacity Building Program will respond to issues unique to community development organizations, including how to ensure program continuity (given staff turnover) and term limits of many volunteer boards.
- *Interaction with the LACDB.* Equally important are the formal and informal communications that will occur among LACDB loan officers, other LACDB staff and Financial Intermediaries. This dialogue is important in communicating information, discussing process improvement and gaining comfort on underwriting and other key operational procedures.

## COMMUNITY DEVELOPMENT ORGANIZATION EQUITY PROGRAM

This program is designed to provide financial assistance to eligible job-generating projects on a competitive basis. The financial assistance will be structured as equity. Key parameters of the program, permitted uses and selection criteria are addressed in the following section.

**Investment Size:** Up to \$1,000,000, per eligible project.

**Permitted Uses:** The program provides gap financing to Community Development Organizations (CDOs) for eligible development costs. Disbursement will be made concurrently with project development funding. Proceeds may not be used for of construction loan funding.

### Selection Criteria

- Public benefit in terms of the number, sustainability, and quality of the jobs created. At a minimum, there must be 1 job created for each \$35,000 in financial assistance; EZ residents must fill 51 percent of jobs created.
- The LACDB must be a lender in the project as well as an equity investor for an amount no less than the equity investment. The loan will conform to the LACDB's underwriting guidelines and standard policies.
- The borrower will leverage the LACDB financial assistance with private capital. There must be a match of at least 1-to-1 of private funds and public funds for the equity of the project. For purposes of determining leverage ratios, the equity infusion from the LACDB is considered public funds.
- The borrower must be a non-profit organization, as defined by IRS Section 501(c)(3), and clearly demonstrate the need for the funds requested through financial projections.
- The borrower must have a proven and demonstrable track record in developing similar community development projects or show evidence of commensurate expertise from staff and consultants.

**Funding Available:** \$14,000,000. The funds will be programmed in \$2.0 million dollar increments over 7 years.

**Ownership Structure:** The equity investment by the LACDB will result in a percentage ownership of the project. This could take the form of a limited partnership interest, minority stockholder in a corporation or manager in a limited liability company, or other equity-sharing agreements.

The percentage of LACDB ownership will be determined by the amount of equity being provided by the LACDB and other sources. For example, if a project requires total equity of \$5.0 million, and \$2.0 million (40

percent) is provided by private investors, \$2.0 million (40 percent) from donations arranged by the non-profit developer, and \$1.0 million from the LACDB, then the LACDB's ownership will be a 20 percent equity interest in the project.

**Financial Viability:** The project must be financially viable; viability being defined as the project achieving cashflow break-even at stabilized operations (typically 1 to 3 years following commencement of operations), and an income break-even in 3 to 4 years. If the project is not projected to break-even following 5 to 6 years of operations, it is not financially viable.

**Selection Committee:** A subcommittee of the Board of Directors will evaluate the proposals and requests for equity, following analysis and recommendations of the LACDB staff and recommend funding to approval of the Board of Directors.

## **VENTURE CAPITAL PROGRAM**

The Venture Capital Program, through financial intermediaries of the LACDB, provides access to capital for small and medium sized businesses for development or expansion and will cause sustainable jobs to be created or retained for residents of the EZ. Through its Venture Capital Program, the LACDB seeks to invest in companies that are unable to access private venture capital funds because the amount of financing required does not meet such funds' investment parameters and/or the company's business is at too early a stage of development to attract traditional venture capital. The Venture Capital Program contemplates both independently sourced investments and co-investments with venture capital and equity funds to provide "gap equity financing" for such companies.

### **Venture Capital Investment Strategy**

The Venture Capital Investment Strategy sets two goals for the Venture Capital Program in addition to the overall goal of providing capital for business growth and job creation and retention in the EZ and city Low-Mod Income Areas:

- Maximizing the risk-adjusted rates of return; and
- Establishing the LACDB's and LACDB Venture Capital Fund's reputation as a preeminent regional investor in order to increase rates of returns by attracting more and higher quality investment opportunities.

To accomplish these objectives, the LACDB's Venture Capital Investment Strategy calls for investment in portfolio companies that have the ability to grow rapidly in a short time. The product a portfolio company is developing or has developed should be unique, proprietary and have a special market niche. Projected revenues within five years from the date of funding should exceed \$25.0 million, and the company should have the ability to attain significant market share for its product within the same period.

The targeted maximum investment limit for investments in any one company (including any follow-on investments) will be \$4.0 million. The minimum investment will be \$100,000, with a targeted initial investment of \$300,000 to \$2.0 million, allowing for additional rounds of financing to fund future growth. There may be situations where investment(s) in a portfolio company may exceed \$4.0 million for strategically important industries. Investments made as part of the Venture Capital Program are required to satisfy all of the LACDB and federal regulatory requirements.

## Section VII

### MARKET ANALYSIS

#### OVERVIEW

The LACDB works to create sustainable jobs in 3 specific areas: (a) Los Angeles Empowerment Zone, (b) Supplemental Zone (one-mile buffer area), and (c) in census tracts of the city where 70% or more of the residents are of low- and moderate-income (i.e., the Supplemental Section 108 Area). These three areas define the market area of the LACDB.<sup>1</sup> In this section, we employ 5 methodologies to study the conditions of LACDB's market area. The first section presents current economic conditions of the EZ, SZ and Supplemental 108 Area. Second, we examine salient characteristics of existing businesses and business trends within the market area. To assess the impact of external economic factors on the LACDB's competitive environment, we also present an analysis of significant economic trends and their impact on capturing new business as well as on the LACDB's current loan portfolio. Following the economic trends section, the *Defined Industry Sector Strategy* is addressed also and describes the 9 targeted industry sectors, with a focus on 3 initial industries. Additionally, since the goal of our lending activities is job creation, we also present key facts about the people and labor force residing in the market area.

#### DISCUSSION OF DATABASE

The analysis of businesses in LACDB's market area is based on a database procured from Dun & Bradstreet (as of September 21 and 28, 1998). The EZ, SZ and Supplemental 108 Area comprise approximately 8,000 businesses. The EZ and SZ database consists of approximately 4,300 businesses and the Supplemental Section 108 (Supplemental 108 Area) database consists of approximately 5,000 businesses. Since some areas of the SZ intersect with the Supplemental 108 Area,<sup>2</sup> the businesses that comprise both areas have been combined in some of the following exhibits. The two combined areas (SZ/Supplemental 108 Area) encompass approximately 6,400 businesses. The database will be used to target the refinement/development of loan and technical assistance products and improve marketing efforts to specific industries and areas. It is important to note that beginning in 1999, the LACDB will increase its marketing and lending activities in the Supplemental Section 108 Area.<sup>3</sup>

#### ECONOMIC CONDITIONS

Economic problems have persisted in the lower-income communities of Los Angeles for decades. High rates of poverty and unemployment are but two signs of the chronic pattern of unmet needs for loans and equity investments for local residents and businesses. The financial needs of the larger national and regional firms located in the LACDB market area are being met in some form. Historically, many of the existing business owners, who live outside LACDB's market area, have conducted their banking downtown or in their home communities.<sup>4</sup> While this has proved an effective way to access capital, it does not address the needs of the resident business owners and other residents within the market area.

Not only do the locally based businesses servicing the market area face the same hurdles as do all small businesses, they must prosper with very limited banking services. Beginning in the 1970s, the inner-city communities of Los Angeles witnessed the systematic erosion of financial services, as bank branches serving local business and residential communities began to close. In time, this reduction in services was sometimes replaced with the installation of bank automated teller machines (ATMs); more often, the vacuum was filled by check cashing operations (in mom-and-pop markets, liquor stores and stand-alone facilities). This increase of stand-alone check cashing facilities was a response to an influx of individuals that used cash and not bank accounts due to cultural reasons (i.e., Latin American immigrants, who historically did not use bank accounts in their native countries, did not use them in the U.S.). By the late 1980s, some banks closed branches in the inner city as a cost-cutting measure since they were unprofitable. In the late 1990s a wave of consolidations

and mergers in the financial sector occurred, creating anxiety among small business owners about their ability to secure needed financing. Today, there is an unmet demand for financing services by small, locally owned businesses.

Most financing for local small businesses has historically come from personal savings, equity loans on personal residences, loans from family/friends, and other unsecured debt (primarily credit cards). This pattern of financing is prevalent within our target market. However, given income levels in the area, property values, and the low incidence of personal savings, the scale of such investment has been severely limited.

More importantly, the traditional sources of business liquidity – commercial lines of credit – have been extremely difficult, if not impossible, for smaller businesses to secure. Access to these lines of credit has been limited because of regulations that restrict banks from making unsecured or inadequately collateralized loans to businesses. In addition, banks have demonstrated an unwillingness to lend in distressed areas of the city.

Clearly, a need exists for alternatives to traditional sources of debt and equity to support business expansion. A community's growth dynamic may be anemic when its residents lack control over capital and financial infrastructure is absent. The LACDB recognizes that the absence of a robust financial infrastructure makes increased credit and capital flows unlikely in low-income communities. The LACDB is committed to filling a critical gap in the available, traditional sources of capital by acting as a catalyst and also leveraging investment. The LACDB is in a position to develop solutions to serve low and moderate-income communities experiencing economic and social distress, and to coordinate resources and address community credit needs.

#### **Key Findings**

- Between 1980 and 1989, Security Pacific and Bank of America, then the two largest banks in Los Angeles, closed 21 and 30 branches respectively, in the city of Los Angeles. Of these, 71 percent of Security Pacific's and 67 percent of Bank of America's closures were in low-income and moderate-income communities.<sup>5</sup>
- There are fewer bank branches per capita and per business in low-income, minority areas than in the rest of the city of Los Angeles.<sup>6</sup>
- Economic development studies undertaken in the city of Los Angeles indicate that financial institutions do not provide adequate banking services, economic development lending or affordable-housing financing to lower income and minority communities.<sup>7</sup>
- Although financial institutions are mandated by the Federal Community Reinvestment Act (CRA) to conduct assessments of credit needs in their market area, many make minimal efforts to assess the extent and nature of credit needs in the lower income communities they serve.<sup>8</sup>
- The federal law contains no meaningful penalties or incentives to encourage financial institutions to meet their CRA obligations on an ongoing basis.<sup>9</sup>

## BUSINESS INVENTORY

### Number of Businesses

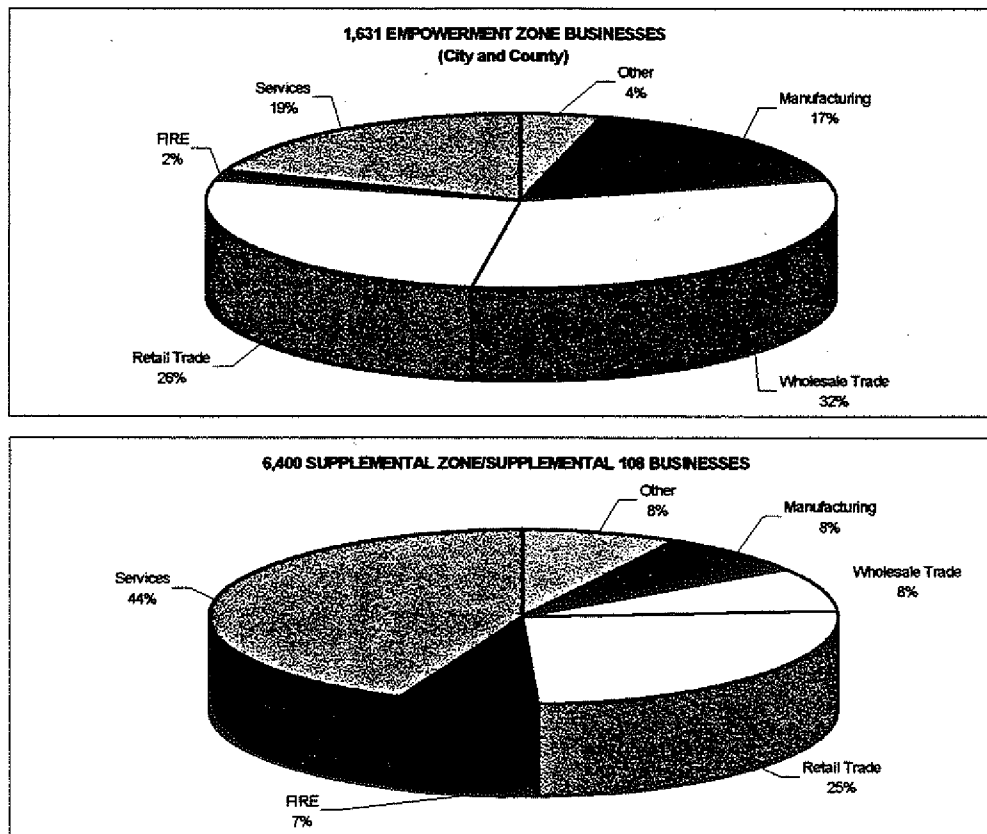
There are approximately 8,000 businesses within the EZ and SZ/Supplemental 108 Area, of which approximately 1,600 businesses (20 percent) are located in the EZ and approximately 6,400 businesses (80 percent) are located in the SZ/Supplemental 108 Area (see Exhibit 6).

For the Empowerment Zone and SZ/Supplemental 108 Area as a whole, the dominant industries are Services (3,115 firms), Retail Trade (2,048 firms) which, together, account for 65 percent of all firms within the market area. The four industries of Wholesale Trade (32 percent), Retail Trade (26 percent), Services (19 percent), and Manufacturing (17 percent), combined, account for 93 percent of all businesses within the Empowerment Zone. That there is such a low concentration of job-intensive, manufacturing firms is a cause of concern as the Manufacturing sector more readily produces jobs than either the Wholesale or Service sectors.

The SZ/Supplemental 108 Area has a distinctively different makeup: businesses in the Service industry account for fully 44 percent of all businesses, followed by Retail Trade (25 percent), Wholesale Trade and Manufacturing, each accounting for 8 percent of all businesses in this area. These four industries represent 85 percent of all businesses within the SZ/Supplemental 108 Area.

### Exhibit 6

**BUSINESSES IN THE EMPOWERMENT ZONE AND  
SUPPLEMENTAL ZONE/SUPPLEMENTAL 108 AREA BY MAJOR SIC DIVISIONS**



Source: Dun & Bradstreet, September 21 and 28, 1998

## **Types of Business**

To gain a clearer picture of the types of businesses in the market area, the following provides descriptions on key characteristics of businesses in the EZ and SZ/Supplemental 108 Area (see Exhibit 7). The Empowerment Zone has been broken down by the City and County areas in order to discern the effectiveness of the current distribution of EDI and Section 108 funds:<sup>10</sup>

- The major business type in the City EZ is Apparel Wholesale (9.2 percent), followed by Textile/Apparel Manufacturing (7.7 percent) and Food Wholesale (7.2 percent). The concentration of businesses in the City EZ shows the efficacy of the LACDB's strategy to target the apparel and foods industry in its Defined Industry Sector Strategy (see the discussion of the Strategy in this Section).
- Only 25 businesses comprise the County EZ, and 20 percent are Food Stores and 8 percent are Automotive Dealers and Construction firms, respectively.
- There is an array of businesses in the Supplemental Zone/Supplemental 108 Area, with a greater dispersion of firms throughout all business types: for example, no one business type has a concentration over 8 percent. The largest concentration of business types is in the Service sector with Medical Facilities (7.4 percent) ranking first followed by Automotive Repair (5.6 percent). Restaurant and Bars represent approximately 5.0 percent of all businesses in the SZ/Supplemental 108 Area.

**Exhibit 7**

**EMPOWERMENT ZONE AND SUPPLEMENTAL ZONE/SUPPLEMENTAL 108 BUSINESSES  
BY BUSINESS TYPE**

| Type of Business  | EMPOWERMENT ZONE |               |           |               | SUPPLEMENTAL ZONE/<br>SUPPLEMENTAL 108 |               |
|---|------------------|---------------|-----------|---------------|--|---------------|
|   | City             |               | County    |               | Number                                 | %             |
|   | Number           | %             | Number    | %             |  |               |
| Construction  | 29               | 1.8%          | 2         | 8.0%          | 276                                    | 4.3%          |
| <b>Manufacturing</b>                                      |                  |               |           |               |  |               |
| Food Processing   | 16               | 1.0%          | 0         | 0.0%          | 12                                     | 0.2%          |
| Textile/Apparel   | 124              | 7.7%          | 0         | 0.0%          | 73                                     | 1.1%          |
| Furniture   | 26               | 1.6%          | 1         | 4.0%          | 31                                     | 0.5%          |
| Paper & Printing  | 19               | 1.2%          | 0         | 0.0%          | 112                                    | 1.8%          |
| Fabricated Metal Products                                 | 18               | 1.1%          | 0         | 0.0%          | 54                                     | 0.8%          |
| Other Manufacturing                                       | 69               | 4.3%          | 2         | 8.0%          | 218                                    | 3.4%          |
| <b>Wholesale Trade</b>                                    |                  |               |           |               |  |               |
| Food Products   | 115              | 7.2%          | 0         | 0.0%          | 37                                     | 0.6%          |
| Apparel   | 147              | 9.2%          | 0         | 0.0%          | 89                                     | 1.4%          |
| Furniture   | 12               | 0.7%          | 0         | 0.0%          | 30                                     | 0.5%          |
| Other Wholesale Trade                                     | 234              | 14.6%         | 4         | 16.0%         | 366                                    | 5.7%          |
| <b>Retail Trade</b>                                       |                  |               |           |               |  |               |
| Food Stores (Grocery, Meat, Fruit, Dairy<br>and Bakeries) | 75               | 4.7%          | 5         | 20.0%         | 238                                    | 3.7%          |
| Apparel   | 82               | 5.1%          | 1         | 4.0%          | 246                                    | 3.8%          |
| Home Furnishings  | 36               | 2.2%          | 1         | 4.0%          | 194                                    | 3.0%          |
| Gas Stations  | 12               | 0.7%          | 0         | 0.0%          | 28                                     | 0.4%          |
| Automotive Dealers  | 17               | 1.1%          | 2         | 8.0%          | 101                                    | 1.6%          |
| Restaurants and Bars                                      | 76               | 4.7%          | 1         | 4.0%          | 323                                    | 5.0%          |
| Other Retail Trade  | 119              | 7.4%          | 2         | 8.0%          | 489                                    | 7.6%          |
| <b>Finance Insurance and Real Estate (FIRE)</b>           |                  |               |           |               |  |               |
| Banks & Financial Institutions                            | 5                | 0.3%          | 0         | 0.0%          | 74                                     | 1.2%          |
| Real Estate Services                                      | 19               | 1.2%          | 0         | 0.0%          | 244                                    | 3.8%          |
| Other FIRE  | 5                | 0.3%          | 0         | 0.0%          | 134                                    | 2.1%          |
| <b>Services</b>   |                  |               |           |               |  |               |
| Hotels & Motels   | 10               | 0.6%          | 0         | 0.0%          | 44                                     | 0.7%          |
| Laundries & Cleaning Services                             | 9                | 0.6%          | 0         | 0.0%          | 58                                     | 0.9%          |
| Beauty Shops  | 6                | 0.4%          | 0         | 0.0%          | 133                                    | 2.1%          |
| Automotive Repair, Services & Parking                     | 40               | 2.5%          | 1         | 4.0%          | 357                                    | 5.6%          |
| Motion Pictures   | 7                | 0.4%          | 0         | 0.0%          | 105                                    | 1.6%          |
| Medical Facilities  | 21               | 1.3%          | 0         | 0.0%          | 476                                    | 7.4%          |
| Legal Services  | 10               | 0.6%          | 1         | 4.0%          | 223                                    | 3.5%          |
| Religious Organizations                                   | 0                | 0.0%          | 0         | 0.0%          | 90                                     | 1.4%          |
| Management & Public Relations<br>Services                 | 3                | 0.2%          | 0         | 0.0%          | 92                                     | 1.4%          |
| Other Services  | 207              | 12.9%         | 2         | 8.0%          | 1,200                                  | 18.8%         |
| <b>OTHER INDUSTRIES</b>                                   | 38               | 2.4%          | 0         | 0.0%          | 253                                    | 4.0%          |
| <b>TOTAL</b>  | <b>1,606</b>     | <b>100.0%</b> | <b>25</b> | <b>100.0%</b> | <b>6,400</b>                           | <b>100.0%</b> |

Source: Dun & Bradstreet: September 21 and 28, 1998

## Empowerment Zone Neighborhoods

There are 10 neighborhoods that comprise the Empowerment Zone. Sorting the business database by neighborhood reveals some interesting differences in business concentration within the Empowerment Zone. The following observations are drawn from Exhibit 8:

- The Downtown Alameda Corridor community with 953 businesses (58 percent) accounts for the highest concentration of businesses within the Empowerment Zone. The second highest concentration of businesses is located in the Historic Core (248 businesses), followed by Boyle Heights/Lincoln Heights (131 businesses), Slauson Industrial Corridor (95 businesses), and Central City South (88 businesses).
- Within the job-intensive industry of Manufacturing, the Downtown Alameda Corridor again ranks first (163 businesses), followed by the Historic Core (29 businesses) and Boyle Heights/Lincoln Heights and the Slauson Industrial Corridor (29 businesses), each.
- In Wholesale Trade, the Historic Core section of downtown Los Angeles (62 businesses), is second and Boyle Heights/Lincoln Heights (37 businesses) is third, behind the Downtown Alameda Corridor (382 businesses).

### Exhibit 8

NUMBER OF BUSINESSES BY EMPOWERMENT ZONE NEIGHBORHOODS <sup>(1)</sup>

|                                     | Agri-<br>culture (2) | Mining    | Cons-<br>truction | Manu-<br>facturing | Trans-<br>portation | Wholesale<br>Trade | Retail<br>Trade | FIRE (3)  | Services   | Public<br>Admin. | TOTAL                        |
|-------------------------------------|----------------------|-----------|-------------------|--------------------|---------------------|--------------------|-----------------|-----------|------------|------------------|------------------------------|
| PACOMA (4)                          | 0                    | 0         | 3                 | 2                  | 0                   | 1                  | 4               | 1         | 4          | 0                | 15                           |
| BOYLE HEIGHTS / LINCOLN HEIGHTS (5) | 0                    | 0         | 5                 | 27                 | 5                   | 37                 | 19              | 1         | 37         | 0                | 131                          |
| DOWNTOWN ALAMEDA CORRIDOR (6)       | 0                    | 0         | 10                | 163                | 24                  | 382                | 192             | 19        | 163        | 0                | 953                          |
| HISTORIC CORE (7)                   | 0                    | 0         | 0                 | 29                 | 5                   | 62                 | 84              | 5         | 63         | 0                | 248                          |
| CENTRAL CITY SOUTH (8)              | 0                    | 0         | 2                 | 12                 | 0                   | 16                 | 42              | 0         | 16         | 0                | 88                           |
| SLAUSON INDUSTRIAL CORRIDOR (9)     | 0                    | 0         | 3                 | 27                 | 1                   | 7                  | 42              | 2         | 13         | 0                | 95                           |
| BROADWAY / MANCHESTER (10)          | 0                    | 0         | 6                 | 7                  | 1                   | 2                  | 26              | 0         | 12         | 0                | 54                           |
| WATTS (11)                          | 0                    | 0         | 2                 | 5                  | 0                   | 1                  | 8               | 1         | 5          | 0                | 22                           |
| FIRESTONE (12)                      | 0                    | 0         | 1                 | 3                  | 0                   | 4                  | 10              | 0         | 4          | 0                | 22                           |
| WILLOWBROOK (13)                    | 0                    | 0         | 1                 | 0                  | 0                   | 0                  | 2               | 0         | 0          | 0                | 3                            |
| <b>Total</b>                        | <b>0</b>             | <b>0</b>  | <b>33</b>         | <b>275</b>         | <b>36</b>           | <b>512</b>         | <b>429</b>      | <b>29</b> | <b>317</b> | <b>0</b>         | <b>1,631</b> <sup>(14)</sup> |
| <b>Percentage of Total</b>          | <b>0%</b>            | <b>0%</b> | <b>2%</b>         | <b>17%</b>         | <b>2%</b>           | <b>31%</b>         | <b>26%</b>      | <b>2%</b> | <b>19%</b> | <b>0%</b>        | <b>100%</b>                  |

(1) The EZ is broken down by neighborhoods as defined by Appendix 1 of the "Census Tract Reference Book" of the Empowerment Zone application of 6/30/94. These neighborhoods are defined by census tracts.

(2) Businesses are grouped by major division SIC codes as defined in the Standard Industrial Classification Manual, 1987.

(3) FIRE represents finance, insurance and real estate.

(4) Pacoima: census tracts 1041.02, 1047.01

(5) Boyle Heights / Lincoln Heights: census tracts 2045, 2051

(6) Downtown Alameda Corridor: census tracts 2060, 2062, 2063, 2260, 2270 and 2281

(7) Historic Core: census tract 2073

(8) Central City South: census tracts 2282, 2286, 2287, 2288, 2289 and 2291

(9) Slauson Industrial Corridor: census tracts 2371, 2372, 2392 and 2393

(10) Broadway / Manchester: census tracts 2383, 2397, 2400, 2402 and 2405

(11) Watts: census tracts 2408, 2409, 2420, 2421, 2422, 2423, 2426, 2427, 2430 and 2431

(12) Firestone: census tracts 5352, 5353 and 5354

(13) Willowbrook: census tracts 5406 and 5407

(14) The Dun & Bradstreet database has 164 businesses that do not have census tracts and therefore some of these businesses may be included in the EZ Neighborhoods.

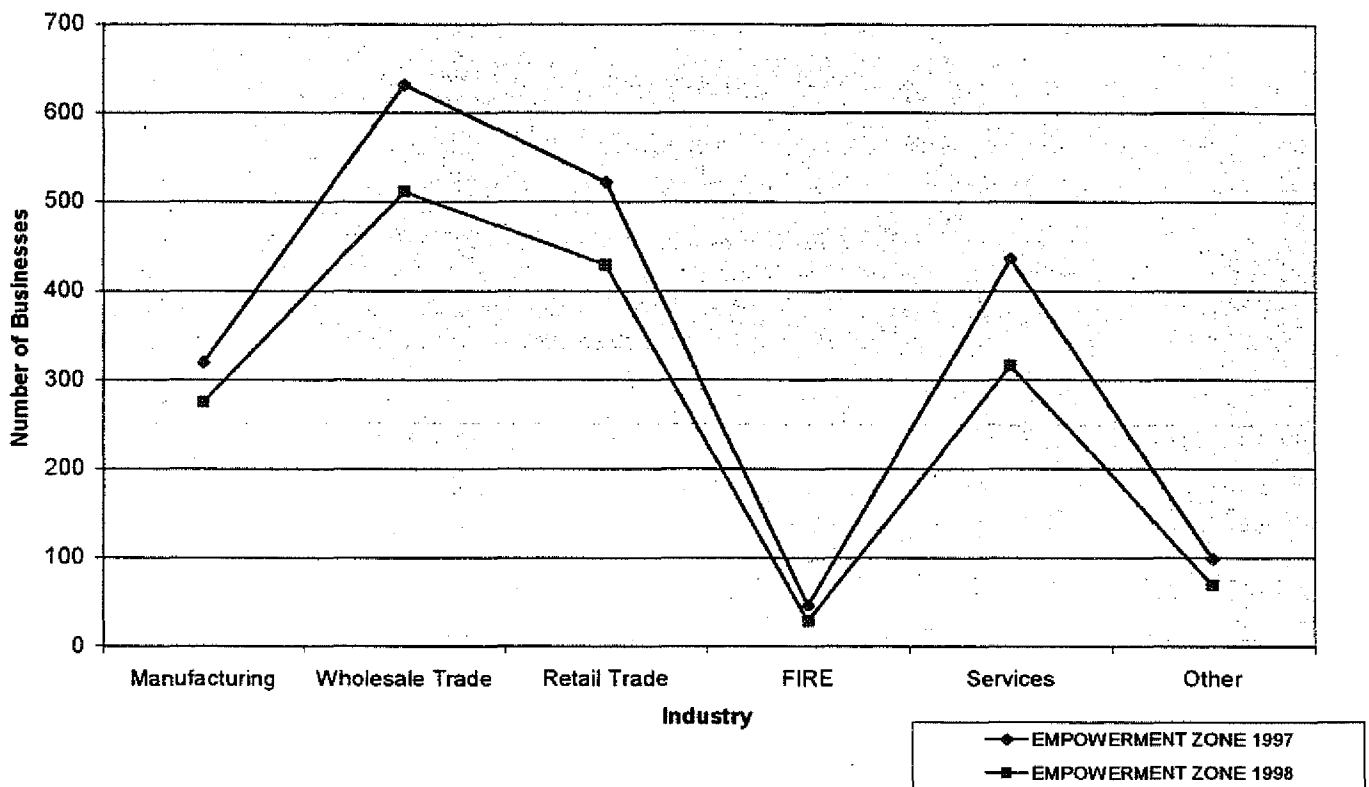
Source: Dun & Bradstreet, September 21, 1998

### Trends: Change in Number of Business From 1997

A comparison of the database between 1997 and 1998 reveals that, overall, the number of businesses has decreased in the EZ and SZ. The total number of businesses in the EZ and SZ for 1997 was approximately 5,700 (see Exhibit 9). In 1998, this number declined by 25 percent to approximately 4,300. The Empowerment Zone and Supplemental Zone both experienced a decrease of 21 percent and 27 percent, respectively from 1997 to 1998. EZ and SZ industries that experienced the largest decline were Finance, Insurance and Real Estate (FIRE), from 230 to 126 businesses (45 percent decline), businesses categorized under "Other" from 353 to 235 businesses (33 percent decline) and the Service sector from 1,664 to 1,191 (28 percent decline).

Exhibit 9

#### BUSINESSES IN THE EMPOWERMENT ZONE AND SUPPLEMENTAL ZONE IN 1997 AND 1998



|                               | Manu-<br>facturing | Wholesale<br>Trade | Retail<br>Trade | FIRE | Services | Other | TOTAL |
|-------------------------------|--------------------|--------------------|-----------------|------|----------|-------|-------|
| <b>Empowerment Zone 1997</b>  | 320                | 632                | 522             | 47   | 437      | 99    | 2,057 |
| <b>Empowerment Zone 1998</b>  | 275                | 512                | 429             | 29   | 317      | 69    | 1,631 |
| <b>Supplemental Zone 1997</b> | 381                | 464                | 1,109           | 183  | 1,227    | 254   | 3,618 |
| <b>Supplemental Zone 1998</b> | 305                | 368                | 841             | 97   | 874      | 166   | 2,651 |

Source: Dun & Bradstreet, July 31, 1997 and September 21, 1998

## 1998 Sales Volume

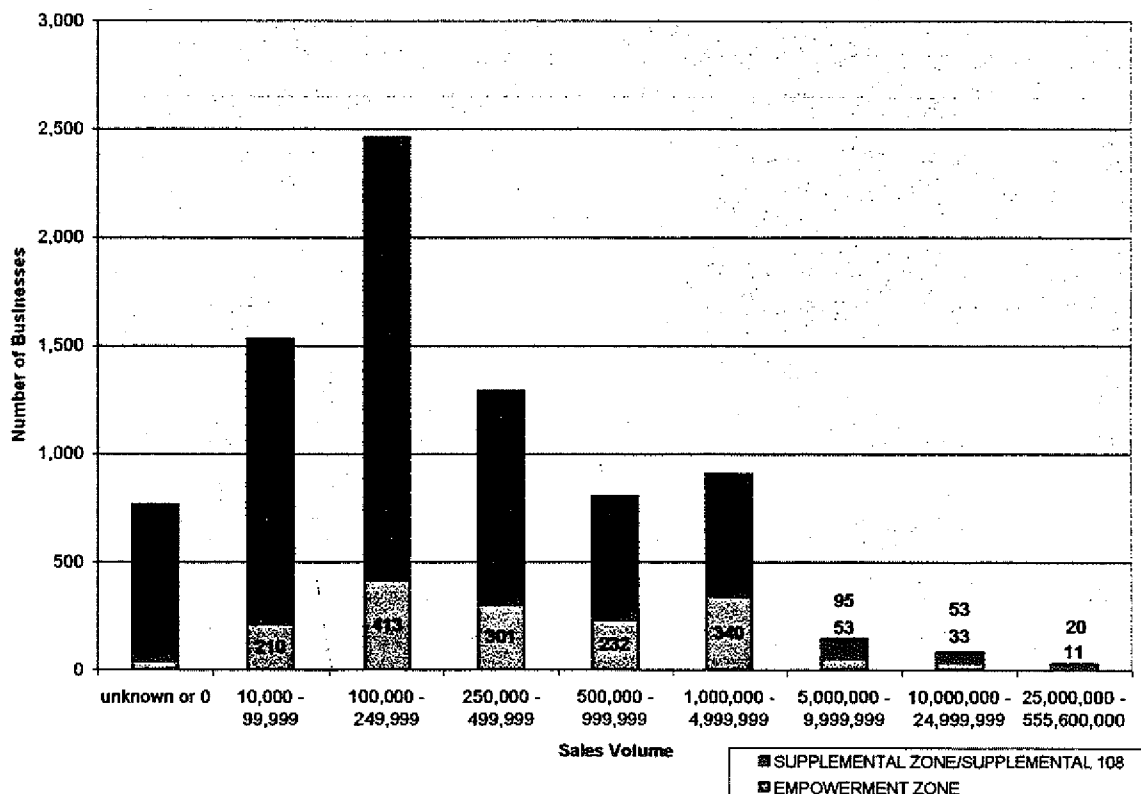
Close to 4,000 businesses (50 percent) of EZ and SZ/Supplemental 108 businesses have a sales volume of under \$250,000, indicating a source of demand for small business loans in LACDB's market area (see Exhibit 10). A majority of EZ and SZ/Supplemental 108 businesses have sales between \$100,000 and \$249,999. Indeed there are 2,463 businesses in this category, representing 31 percent of all businesses in the Empowerment Zone and SZ/Supplemental 108 Area. The next largest group is firms with sales between \$10,000 and \$99,999, at 1,533 firms (or 19 percent), followed by firms with sales between \$250,000 and \$499,999, at 1,291 firms (or 16 percent).

The SZ/Supplemental 108 Area have a greater concentration of businesses (2,050 firms or 32 percent of the total) with sales between \$100,000 and \$249,999, than does the Empowerment Zone. For SZ/Supplemental 108 firms, the second largest group is those with sales between \$10,000 and \$99,999, at 1,323 firms (or 21 percent), followed by firms with sales between \$250,000 and \$499,999, at 990 firms (or 15 percent).

The EZ has a greater dispersion of firms throughout the distribution. For example, firms with sales between \$100,000 and \$249,999 represent 25 percent (or 413 firms) in the Empowerment Zone. EZ firms that have sales between \$1,000,000 and \$4,999,999 represent the next largest group (at 340 firms or 21 percent), followed by firms with sales between \$250,000 and \$499,999 (at 301 firms or 18 percent).

### Exhibit 10

**SALES VOLUME BY COMPANY**  
(Out of a total of 1,631 Empowerment Zone Businesses and 6,400 Supplemental Zone/Supplemental 108 Businesses)



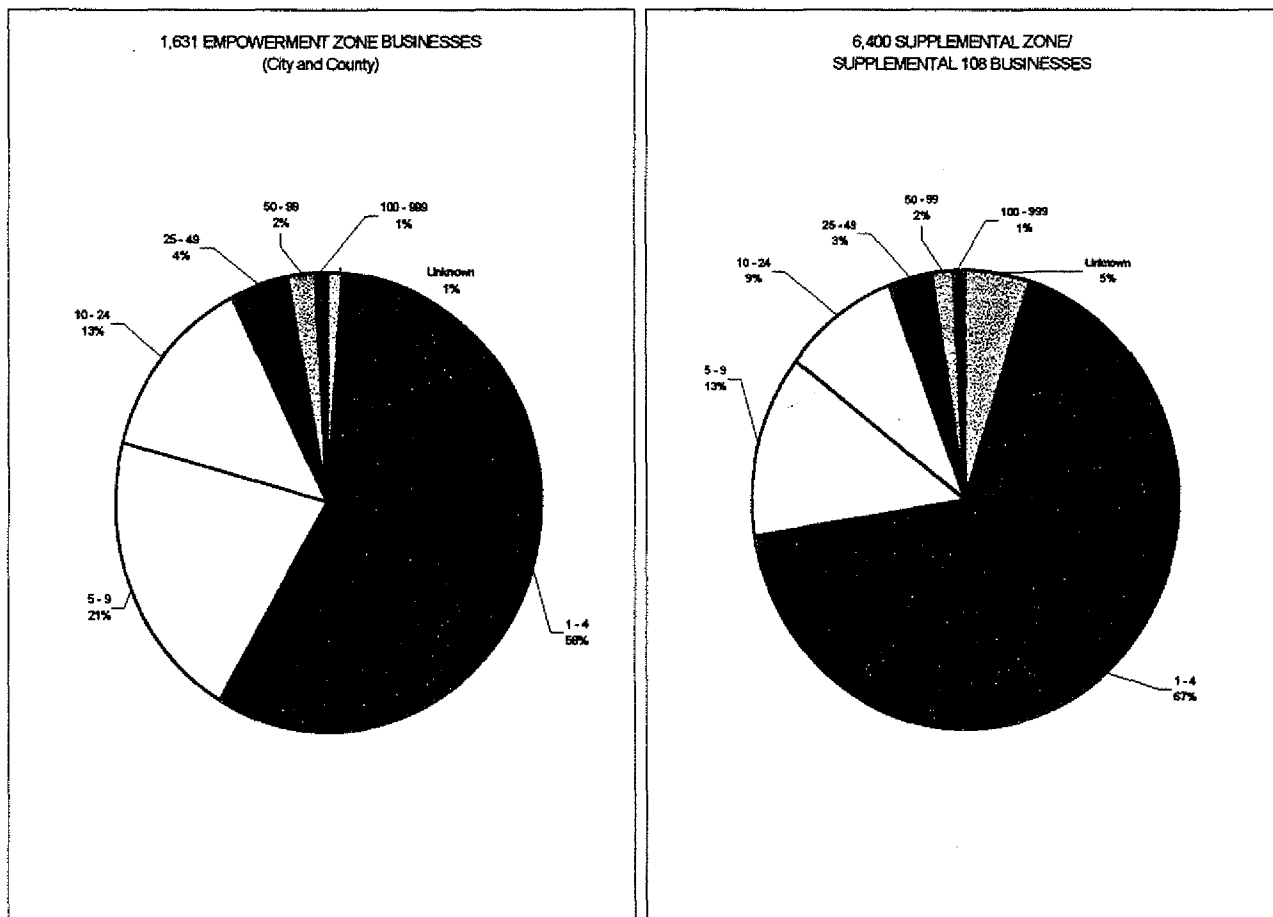
Source: Dun & Bradstreet, September 21 and 28, 1998

## Businesses by Number of Employees

The preceding information on the concentration of small businesses by sales volume in the EZ and SZ/Supplemental 108 Area is mirrored in the analysis of businesses by employee size. In both study areas, businesses that employ between 1 and 4 employees comprise a majority, showing a strong demand for microlending. Fully 58 percent of all businesses in the EZ have less than 5 employees showing a strong concentration of small businesses in LACDB's primary market (see Exhibit 11). The remainder of businesses is dispersed in companies with employees between 5 and 9 (21 percent), between 10 and 24 (13 percent), and 25 and 49 (4 percent). The SZ/Supplemental 108 Area shows a similar concentration of businesses. The most representative business in this area is firms that employ less than 5 employees (67 percent), followed by businesses that employ between 5 and 9 (13 percent), between 10 and 24 (9 percent) and between 25 and 49 (3 percent).

Exhibit 11

### BUSINESSES IN THE EMPOWERMENT ZONE AND SUPPLEMENTAL ZONE/SUPPLEMENTAL 108 AREA BY NUMBER OF EMPLOYEES



Source: Dun & Bradstreet, September 21 and 28, 1998

## Top Ten Employers in the EZ

Exhibit 12 addresses the top 10 employers in the Empowerment Zone in order to show the types of businesses that have prominence in the LACDB's primary market. The top 2 employers in the EZ are in the Service sector, which is uncharacteristic of the concentration of industries in EZ. Wholesale Trade comprises a majority of firms (at 32 percent) in the EZ, and the Service sector ranks third (at 19 percent) out of all industries in the EZ. However, H & H Labor Supply (at 225 employees) and Christine Clothing Corporation (at 200 employees) – both in the Service sector – are the largest employers. The firm to rank third is SM Uni Inc (at 160 employees), which is a fish and seafoods wholesaler. However, the jobs-intensive Manufacturing sector has the greatest number "top employers": 4 are manufacturers out of the 10 firms highlighted (K & KS Apparel, Inc at 150 employees; Chung Dress at 150 employees; Cisco Bros. Corporation at 110 employees and Mermel of California at 100 employees). 3 of these 4 are in the apparel industry, which is a focus of the LACDB's Defined Industry Sector Strategy.

Exhibit 12

| TOP 10 EMPLOYERS IN THE EMPOWERMENT ZONE IN 1998 |                             |                                  |   |                 |
|--|-----------------------------|----------------------------------|---|-----------------|
| Rank   | Name of Company             | Number of Employees <sup>1</sup> | Type of Business                              | SIC Division    |
| 1  | H & H Labor Supply Inc      | 225                              | Temporary Services                            | Services        |
| 2  | Christine Clothing Corp     | 200                              | Business Services                             | Services        |
| 3  | SM Uni Inc                  | 160                              | Fish and Seafoods                             | Wholesale Trade |
| 4  | K & KS Apparel Inc          | 150                              | Mens, Boys, Trousers<br>Manufacturer          | Manufacturing   |
| 5  | Nikabar Inc                 | 150                              | Packaged Frozen Goods                         | Wholesale Trade |
| 6  | Chung Dress                 | 150                              | Women's and Misses' Outerwear<br>Manufacturer | Manufacturing   |
| 7  | California Jeans Sewing Inc | 120                              | Business Services                             | Services        |
| 8  | Cisco Bros Corp             | 110                              | Upholstered Household<br>Furniture            | Manufacturing   |
| 9  | Canton Poultry & Deli Inc   | 106                              | Groceries                                     | Wholesale Trade |
| 10   | Mermel of California        | 100                              | Women's and Misses' Outerwear<br>Manufacturer | Manufacturing   |

<sup>1</sup> By employees at one location in the Empowerment Zone. This number does not account for employees at other locations.

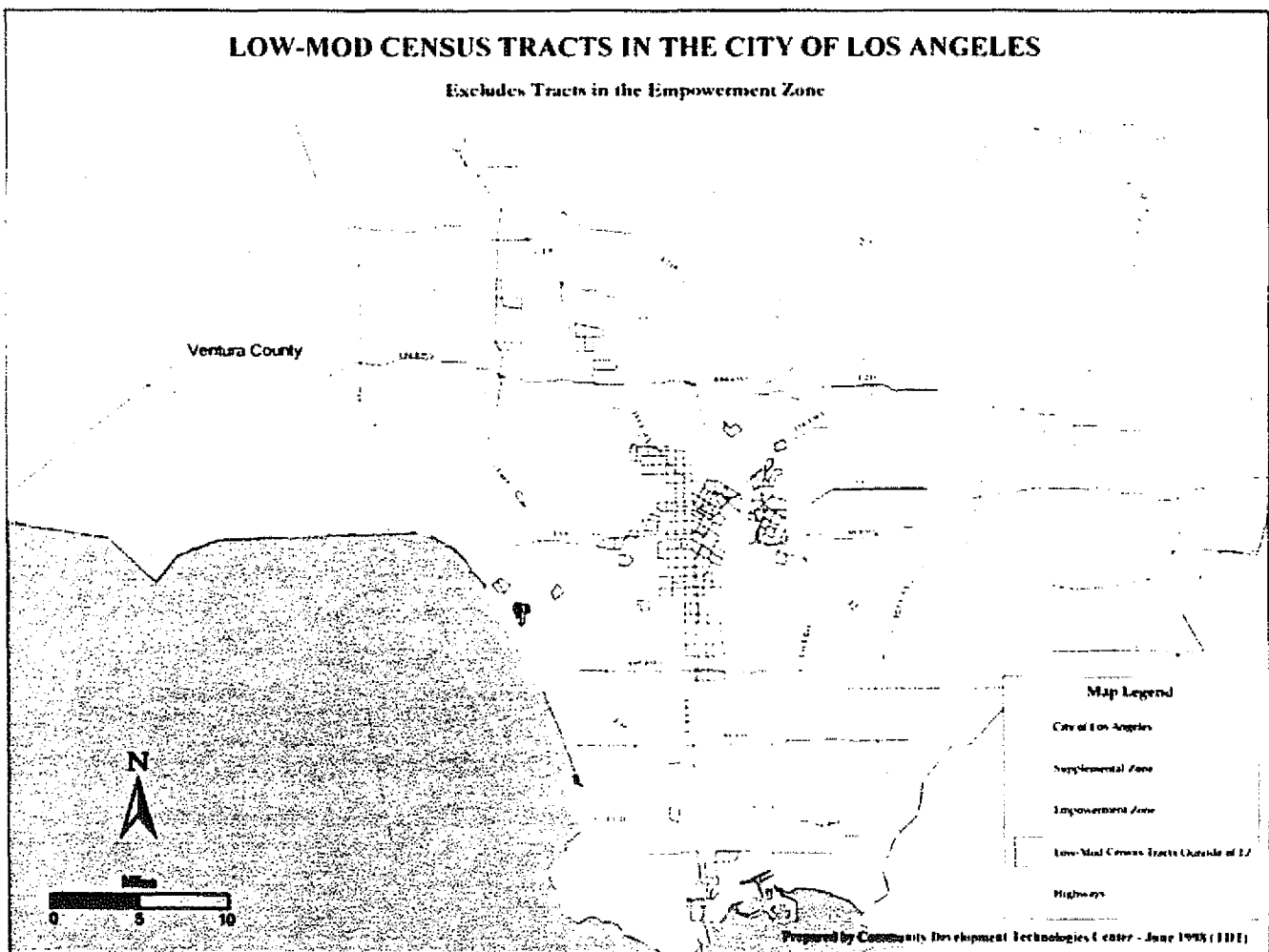
Source: Dun & Bradstreet, September 21, 1998

## Map of Supplemental Section 108 Area

A map of the Supplemental Section 108 Area is included in this section in order to illustrate the areas in which LACDB may lend outside of the EZ (see Exhibit 13). Approximately 5,000 firms make the Supplemental 108 Area. There is much overlap between the Supplemental 108 Area and the SZ, with 1,300 firms (or 48 percent of all SZ firms) in both the Supplemental Zone and the Supplemental 108 Area, with 1,400 SZ firms falling outside of the Supplemental 108 Area. Therefore, the total number of SZ and Supplemental 108 firms to which the LACDB may lend outside of the EZ is 6,400.

A total of 158 census tracts comprise the Supplemental 108 Area, which are spread throughout the city of Los Angeles. These tracts are not solely concentrated in the Downtown, South Central, the Eastside or Pacoima areas as is the EZ, but rather are near the airport, in Koreatown or north of Dodger's Stadium. Supplemental Section 108 funds provides the LACDB with more freedom to lend in the low- and moderate-income area of Los Angeles. The LACDB may lend up to \$200.0 million in Section 108 funds to businesses located, or willing to relocate in these tracts.

### Exhibit 13



## ECONOMIC TRENDS ANALYSIS

Aside from the operating characteristics and performance of businesses located in our market area, the LACDB must contend with a number of dynamic external forces that give shape to our competitive environment. Some of these factors are local (e.g., real estate prices), others regional (e.g., regulatory issues), still other national (e.g., interest rates, threats of recessions, etc.), and finally global factors (e.g., the so-called Asian contagion). In this section we identify selected key economic factors and trends and comment on their potential ramifications to the LACDB.

Economic trends and issues that affect the world, the United States and the Southern California area may influence the LACDB's Direct Lending Programs. Such trends and issues include inter- and intra-state bank consolidations, lowering of bank credit risks, reform of bankruptcy laws, the Asian economic crisis, a positive jobs forecast in California and many more. A list of trends that may influence performance within the LACDB's Indirect Lending Programs is more local in scope and program-driven. The Indirect Lending Program is affected by the lack of microlending at local financial institutions, an expansion of the SBA's loan programs, federal legislative initiatives (including the Program for Investments in Microentrepreneurs Act of 1998) and other issues.

An analysis of current economic events is outlined below to provide a "snapshot-in-time" of significant factors that may affect the business environment with the LACDB's market area and the achievement of lending and other targets described elsewhere in this Business Plan. By monitoring these and other factors affecting current and future economic conditions, the LACDB is better positioned to make appropriate adjustments to its marketing efforts as well as predict the performance of its current loan portfolio.

### Direct Lending Program

- **Bank Consolidations and "Brownlining."** Bank consolidations have created a bias against lending in brownfields (i.e., sites that suffer from perceived or real environmental contamination) due to an institutional rigidity that characterizes the resulting larger financial institution. As the size of a bank increases, the influence of environmental (and other) risk managers grows and becomes more centralized. As the decision-making becomes more institutionalized, the likelihood of funding for projects with real or perceived lessens dramatically. Therefore, the incidence of "brownlining" is more likely to occur in larger, consolidated financial institutions than smaller ones, since they lack the local touch needed to assess true risk.<sup>11</sup>

**Impact on LACDB:** The absence of traditional financing, in part due to the factors described above, should create demand for the LACDB's Commercial Real Estate Program in regards to brownfields. The LACDB may be able to mitigate its risk, and leverage limited resources, by inviting conventional banks to participate in loans to brownfields projects.

- **Lowering of Commercial Lending Standards.** A recent survey conducted by the U.S. Office of the Comptroller of the Currency reported that commercial banks are lowering their lending standards to help their competitive positions, despite a growing risk that business borrowers will default on loans. "Examiners at 69 percent of the surveyed banks – compared with 59 percent in 1997 – report eased underwriting standards for one or more types of commercial loans," the report said. "This trend was most pronounced in ... national middle market and commercial real estate lending." This report also projects that banks will be hit by a wave of bad domestic loans over the next 18 months, similar to those faced in the early 1990s, when real estate developers forced banks to renegotiate billions of dollars in loans or face defaults.<sup>12</sup>

**Impact on LACDB:** As conventional lenders lower credit standards, they will be dipping further into the LACDB's market area, reducing the LACDB's customer base, and threatening the lending targets for 1999. A further area of concern is that the businesses declined by banks may pose further credit risk to the LACDB.

- **Reform of Bankruptcy Laws.** The U.S. Senate recently passed legislation to overhaul bankruptcy laws that would make it harder for people to sweep away their debts. The U.S. House of Representatives had already passed an even more stringent measure. Lawmakers must reconcile the two versions and send the bill to President Clinton.

The legislation was in response to a recent increase in personal bankruptcies despite the strong economy. The number of Americans filing personal bankruptcies in 1997 jumped to almost 1.4 million, up more than 300 percent since 1980. In the second quarter of 1998, personal bankruptcy filings rose 6 percent from the first quarter. Both the House and Senate versions would make it more difficult for people to simply file court papers and liquidate their debt (Chapter 7). The reform bills would require persons who earn at least the median U.S. income (about \$51,000 for a family of four) to file Chapter 13 (financial reorganization), subject to a court-ordered repayment plan, if they can pay back 20 percent of their debt within five years.<sup>13</sup>

**Impact on LACDB:** If signed into law, this legislation would bode well for the LACDB by increasing the likelihood of recovery of funds when an LACDB borrower declares personal bankruptcy.

- **Asian Economic Crisis and a Decline of Exports.** The protracted Asian economic crisis is negatively impacting exports from U.S. businesses, which can be evidenced at the Port of Long Beach (POLB) and the Port of Los Angeles (POLA), the nation's busiest ports. Export volume in August 1998 was reported to be down at least 4 percent from a year ago for both ports. In addition, the Port of Long Beach reported a dramatic decrease: their exports were down 11.5 percent, and August marks POLB's fifth straight month of decline in exports.

Conversely, imports in the month of August for both ports were up 22 percent from last year due to imports from Asian manufacturers seeking to make up for a contraction in domestic demand. POLB reported the second-highest level of inbound containers in its history in August (July 1998 was the highest level). Throughout Southern California, the impacts of the economic crisis in Asia and other areas will be felt.

**Impact on LACDB:** The reduction in exports is not expected to have a direct impact on the LACDB's existing portfolio inasmuch as most borrowers serve predominantly regional and domestic markets. The LACDB may see an increase in financing requests from export-affected businesses unable to secure credit elsewhere; we will have to carefully assess such cases. The likelihood of economic slowdown in the LA region, as a consequence of the Asian contagion, is high. Such a slowdown will affect the economic output of the region across all sectors and may pose threats to repayment of loans by existing borrowers.

- **Positive State Jobs Forecast.** The UCLA Anderson Forecast Project recently reported that the state's economic outlook will be healthy this year and in 1999 and will slightly outpace the nation's job formation rate. In their report on employment for the third quarter of 1998, the UCLA economists stated that California's non-farm job growth would increase by 3.1 percent this year, slowly to 2.3 percent annually in 1999. If this forecast is maintained, California's payroll growth rate would be more than double the national rate, now at 0.9 percent. In addition, with the state's job growth rate slightly higher than the nation's rate, more people may be motivated to move or migrate to California.<sup>14</sup>

**Impact on LACDB:** Continued job growth has obvious positive implications for the LACDB, its borrowers and Empowerment Zone residents. Job creation is an outgrowth of business performance and increased sales growth, strengthening the ability of borrowers to repay the LACDB. In addition, the likelihood of employment for Empowerment Zone residents will increase, as more positions become available.

- **Decline of Small Businesses.** In a recent survey conducted by the USC Marshall School of Business, it was found that a majority of the small businesses in Southern California are struggling with flat or declining sales, despite the state's strong economic recovery. The study reported that small retailers, manufacturers and service firms were hardest hit, suggesting negative impacts to the region's economy. The study surveyed 1,670 companies with fewer than 500 employees. Companies of this size make up 99.8 percent of all firms in Southern California and employs 80 percent of the region's private-sector workforce.

The firms' declining sales are attributed to "home-grown" problems rather than international factors, such as the Asian economic crisis. Business owners cite a lack of skilled labor; big government and lack of access to capital. Specifically in the city of Los Angeles, "filthy streets, crumbling infrastructure, stratospheric business taxes and crime" were a cause for frustration by many business owners. In the retail sector, the survey found that big-box retailers are cutting into the business of mom-and-pop retailers who cannot compete.<sup>15</sup>

**Impact on LACDB:** While it is difficult to extrapolate the results of the survey to Empowerment Zone businesses, over 50 percent of all businesses in the EZ and SZ/Supplemental 108 Area employ less than 5 people, and the findings are therefore troubling. More often than not, such regional trends are magnified in the Empowerment Zone. The fact that the region's small firms are negatively impacted by local conditions is a cause for hope, though, as local government and regional alliances are capable of rapid change. Apart from the flexible financing and technical assistance offered by the LACDB, businesses in the Los Angeles Empowerment Zone can benefit from special programs (e.g., L.A. Tax-Free Zone (TFZ), employee tax credits, etc.), that serve to offset threats to business expansion. Through its strategic alliances, the LACDB provides continuous feedback to relevant government bodies in order to ameliorate local economic challenges.

- **Credit Crunch in the Commercial Mortgage Market.** With the recent decline in the U.S. stock and bond markets, investors are avoiding the market for commercial mortgage-backed securities along with other risky bonds. With the price of these securities falling, investment banks and other mortgage lenders are not making real estate loans. The result is a decline in available credit in the mortgage market, with a related factor being a reduction in property prices. The decline in available credit and the reduction of prices will, in turn, dissuade new construction, helping to bolster rents.<sup>16</sup>

**Impact on LACDB:** As local commercial lenders and other financing conduits reduce capital for commercial real estate loans, there may be renewed interest and demand for commercial real estate development in the LACDB's market area. The LACDB's Commercial Real Estate Program would benefit from such a contraction in credit. Until the credit flows are restored, refinancing would be more difficult for LACDB borrowers.

- **Success of a Welfare-to-Work Program.** Los Angeles County is making strong gains in moving welfare recipients into jobs, increasing their earnings and reducing welfare payments, a study by a Washington-based research institute, Manpower Research Development Corporation (MRDC), found this year. The county's welfare-to-work program, or Greater Avenues for Independence (GAIN), was successful in helping welfare recipients to get jobs and earn higher wages than recipients who received no GAIN services. Welfare recipients enrolled in the GAIN program are inspired by the county to find jobs quickly, through the provision of job search assistance and motivational seminars.<sup>17</sup>

**Impact on LACDB:** It is likely that a large proportion of welfare recipients live in the Empowerment Zone EZ, as the poverty rate is the greatest in this area compared to the rest of the city. Given that the LACDB's mission is to create jobs for Empowerment Zone residents – 51 percent of jobs created or retained must go to residents of the EZ -- the efficacy of GAIN has positive impacts on the bank. As the success of GAIN increases the pool of employable EZ residents, LACDB borrowers may more readily hire EZ residents.

- **Lack of Childcare.** California's Little Hoover Commission reported that 600,000 more children would require state-subsidized childcare as more parents leave the welfare rolls to find jobs. In South Central Los Angeles, there are 10 to 20 children under the age of 6 for every licensed childcare space.<sup>18</sup>

**Impact on LACDB:** The lack of affordable, convenient, and safe childcare has been identified as deterrents to employment of parents in inner city communities generally, and in the Los Angeles Empowerment Zone specifically. Consequently, lack of childcare services could impede the ability of LACDB to hire qualified EZ employees. While the provision of these and other necessary social services (including public transportation) are outside the scope of the LACDB, we endeavor to partner with social service providers to focus programs to EZ residents.

- **Incentive Programs Within the EZ.** As of February 1998, the Los Angeles Empowerment Zone received full EZ status, with federal tax benefits scheduled to begin in the 2000 (running through 2007).

The other incentive program that targets the Empowerment Zone is the L.A. Tax Free Zone (TFZ). This is a City-sponsored program that exempts non-L.A. businesses relocating within the EZ from city business taxes for a period of five years. L.A. businesses relocating from other parts of the city into the Empowerment Zone and businesses currently located in the Zone will have their city business taxes frozen at their current level.<sup>19</sup>

**Impact on LACDB:** Both incentive programs, the federal tax credits and the L.A. Tax Free Zone, help accelerate investment by EZ businesses and will assist the LACDB's efforts to promote economic development in the EZ.

#### **Indirect Lending Program**

- **Supply of Microloans.** LACDB staff recently conducted a phone survey of 15 lenders in the Southern California area. Of these 15 lenders, only 25 percent (4 lenders) were making loans of \$20,000 or less, whereas 50 percent (8 lenders) were making loans of less than \$50,000, and the rest were not engaged in any microlending. The survey also found that these lenders engaged in credit scoring (i.e., eligibility of the loan applicant is based solely on objective data in credit report), did not make loan to start-ups and did not make loans directly (rather made loans through the SBA's LowDoc Program).<sup>20</sup>

**Impact on LACDB:** The lack of lending in the \$1,000 to \$25,000 range suggests a market for LACDB's microloans. In addition, these microlenders evaluated applicants solely on historical performance rather than future potential, a criterion that the LACDB takes into account in evaluating loan applications.

- **Expansion of SBA's Loan Programs.** The U.S. Small Business Administration (SBA) is expanding two loan programs, SBA Express and the SBA LowDoc Programs. With these expansions, an additional \$1 billion is expected to be made available to small businesses in 1999. Both programs provide loans of up to \$150,000 (increased from a previous limit of \$100,000) and will target start-ups, women- and minority-owned firms. These markets are targeted because they have traditionally been recipients of small business loans and have had a difficult time in accessing capital.<sup>21</sup>

Previously these two loan programs were in a pilot phase. After the expansion of these programs in October 1998, a 36-hour turnaround time will be offered and rejected applicants will be reconsidered with the LowDoc Program. In addition, lenders may extend unsecured credit to borrowers (of up to \$25,000 without losing their SBA guarantee) with the Express Program, and lenders may extend lines of credit of up to \$150,000 with the LowDoc Program.

**Impact on LACDB:** The expansion of the SBA's Express and LowDoc Programs may negatively impact the LACDB's Microloan and Indirect Business Loan Programs. Both SBA programs target the same market as the Microloan Intermediary Program (\$1,000 - \$25,000) and the Business Loan Intermediary Program (\$25,001 - \$500,000). With the SBA's faster turn around time as well as an automatic reconsideration of rejected loan applications, the market for LACDB's Intermediary products may be reduced, perhaps substantially. In addition, the SBA's loan products will be highly competitive since a portion of the credit may be unsecured

- **Continuation of Competing Loan Programs.** Many pilot programs are being extended that serve the entire LA county. The Valley Economic Development Corporation (VEDC) and FAME Assistance Corporation are collaborating on a countywide SBA Microloan Program. In addition, the U.S. Department of Commerce Economic Development Administration (EDA) is rolling out a permanent, city-wide microloan program called the FRAP, initially targeted towards the disaster relief after the 1994 Northridge Earthquake, and now being continued as a permanent loan fund.

**Impact on LACDB:** Each of these alternative loan programs poses competition for LACDB products and programs inasmuch as they target similar markets. The impact is exacerbated when the competing program is implemented by an LACDB financial intermediary (e.g., VEDC and FAME) that must align its personnel with the program that yields the greatest economic returns. The intermediary's decisions often create confusion in the marketplace since they are marketing competing loan products to the same prospective borrower base.

- **Program for Investments in Microentrepreneurs Act of 1998 (PRIME Act).** The PRIME Act is a capacity-building initiative designed to enable microenterprise development organizations to provide training and technical assistance to low-income entrepreneurs. The PRIME Act authorizes the Community Development Financial Institutions (CDFI) Fund to establish a grant program. This Act has been introduced in both the Senate (S. 2190) and the House of Representatives (H.R. 4179).<sup>22</sup> The bill appropriates \$105 million over the next five years.<sup>23</sup>

**Impact on LACDB:** As a non-profit organization, LACDB would be eligible to apply for these grant funds to provide direct training and technical assistance to low-income and disadvantaged entrepreneur. It would also provide capacity building assistance to its intermediary organizations serving low-income and disadvantaged entrepreneurs and engage in research and development activities to identify and promote entrepreneurial training and technical assistance programs that more effectively serve low-income and disadvantaged entrepreneurs. The LACDB will stand to benefit by increased capacity to its Microloan Program if this legislation is passed, and the bank qualifies for the funds. A demand for its products would be nurtured through the use of the PRIME Act funds, as potential borrowers would be primed for LACDB loans.

## **DEFINED INDUSTRY SECTOR STRATEGY**

The LACDB has initiated a *Defined Industry Sector Strategy* to reverse the economic decline of core industries in the LA Empowerment Zone. The strategy targets 9 specific industries that have a significant presence in the Empowerment Zone and have strong job creation/retention potential. These industries include Apparel, Biomedical, Electronics, Furniture, Food Processing, Metalworking, Plastics, Textiles and Toys. By focusing financing to these major industries, the LACDB hopes to retain and upgrade jobs by introducing new technologies and processes. The initial industry targets are Apparel, Food Processing, and Metalworking.

Outlined below are some key points about the initial 3 industries of LACDB's Defined Industry Sector Strategy:

### **Apparel Industry**

The apparel industry is very fragmented with manufacturers and contractors working together to produce the final product. The manufacturers are the designers, who buy the materials, coordinate production, and market the final product, but do very little actual "manufacturing." They contract out cutting, sewing, and other specialty procedures. The manufacturers buy materials from the textile manufacturers, both domestic and international. The domestic textile manufacturers face many of the same issues as the apparel manufacturers.

The apparel industry is the initial focus of the LACDB's targeted industry strategy. According to Dun & Bradstreet, the apparel industry is the largest industry in the L.A. EZ and SZ comprising over 1,300 firms, accounting for \$4.6 billion in sales, and employing 32,000. Aside from its economic importance, the apparel industry is a point-of-entry for many immigrant workers and entrepreneurs hoping to start businesses, gain work experience and advance into managerial positions.

The LA apparel industry is increasingly focused on the concept of "upgrading"; that is, transforming the industry from a labor-intensive, low-technology, low-wage, low-value industry to one in which technologically advanced manufacturing techniques paired with high-wage skilled labor create higher-end garments. Industry upgrading will become more and more critical as the production of low-end garments is moved offshore. The LA industry is also associated with fashion, glamour, and image—attributes that have the potential to support the notion of "better" garments and can contribute to the industry's competitive advantage. It is this process of upgrading that the LACDB can actively support.

### **Food Processing Industry**

The food processing industry in Los Angeles is historically large, ranking third in employment behind the apparel and printing industries. However, food processing had the highest value of shipments of any non-durable manufacturing industry.

Cheap land and cheap labor seem to be 2 critical success factors of the food processing industry. Overall employment in the food processing industry in Los Angeles County has been steady over the past several years, at around 42,000 jobs. However, the city of LA has suffered a decline in food processing jobs, as high land prices and difficult regulatory restrictions force companies to move out of the city.

The industry has been undergoing a steady consolidation over the past few decades, as larger firms slowly acquire smaller ones. As a result, the industry is increasingly concentrated. As of 1995, 1,100 food processing companies exist in LA County, with sales of \$12.2 million and employment of 50,400. According to one estimate, the top 50 firms will control 90% of the industry's assets by 2000. However, the concentration of the processors is less than that of the distributors, of which the largest have substantially greater market power.

## **Metalworking Industry**

The Los Angeles metalworking industry is large and diverse, spanning 3 two-digit SIC classifications (33, 34, and 35). These companies offer a wide range of goods and services, from raw metal processing to intermediate metal work (sheet metal, metal for building structures, etc.) to finished goods (springs and wires, machine tools, industrial machinery, consumer goods). Included in this mix are services to the metalworking industry, such as heat-treating, finishing, and plating.

According to CD Tech analysis of 1995 Dun & Bradstreet data, there are approximately 7,000 companies metalworking companies in the Los Angeles County, accounting for 137,000 employees, with annual sales of \$16.8 billion. Metalworking companies located in the "neglected areas"<sup>24</sup> of L.A. County make up about half of this economic activity.

The industry is highly fragmented, with the typical company being family-owned, in business for 30 years, with an average of 50 employees. Because of their small size, many machine shops concentrate on market niches as subcontractors to much larger companies. These larger companies have all the technical and product development capabilities, so smaller companies do not have to carry these functions in-house, and can instead concentrate on the actual metalworking. Unfortunately, this means that subcontractors are vulnerable to industry downturns and to squeezing by the larger companies, who have many options in terms of subcontractors.

## DEMOGRAPHIC OVERVIEW

The EZ and SZ resident population has socio-economic characteristics similar to those of other inner city, lower-income communities in Los Angeles County. Latinos and African Americans constitute the primary population groups within the EZ. Projections indicate that the resident population will increase and grow denser. Incomes will rise, but will remain below that of L.A. County and increase at a slower rate than county projections. Latinos will continue to populate the majority of the EZ and SZ communities.

In educational preparedness and attainment, EZ and SZ residents face obstacles to employment. Approximately 38 percent of EZ residents possess a high school diploma (or equivalent) as compared to 70 percent of LA County residents.

Additional projected trends for the EZ and SZ from 1996 to 2001, and comparisons to the Los Angeles County population are included below:<sup>25</sup>

- The EZ and SZ population represents approximately 10 percent of the LA County population. The EZ population is expected to increase by almost 4 percent, from 964,910 to 1,000,239 persons.
- The number of housing units in the EZ and SZ will increase at a slower rate than in LA County overall. EZ housing units will increase by 2 percent while LA County housing stock will rise 3 percent.
- Population density is more than 5 times as high in the EZ and SZ than in the county. There are 2,297 persons per square mile in LA County compared to 12,282 persons and will rise by 4 percent, per square mile in the EZ and SZ, by the year 2001.
- The average EZ and SZ resident is poorer, possessing only 43 percent of the per capita income and 57 percent of the average household income of their LA County counterpart. Household income per capita is rising in the EZ and SZ is rising 8 percent, while LA County incomes are rising over 10 percent.
- Latinos are over-represented in the EZ and SZ. Latinos comprise the bulk of this area: currently they represent 70 percent and are projected to rise to 74 percent by 2001. The Latino population within the EZ and SZ increased 15.4 percent from 1990 to 1996 and is projected to increase an additional 9 percent by 2001. Countywide, the Latino population of approximately 4 million persons is 42 percent of a 9 million person total population. The County's Latino community has grown over 16 percent between 1990 and 1996.
- African Americans are also over-represented in the EZ and SZ. African Americans currently comprise 23 percent of the EZ and SZ population. The population has decreased 12 percent from 1990 to 1996 and is projected to decrease an additional 10 percent by 2001, lowering representation from 23 to 20 percent of the total EZ and SZ. African Americans are approximately 11 percent of LA County's population and will account for 10 percent of the population in 2001.
- The non-minority white population is underrepresented in the EZ and SZ. They represent 3 percent of the EZ and SZ population and will represent only 2 percent in 2001. Countywide, the white population of 3.3 million persons makes up 35 percent of the total population and will account for 31 percent in 2001.
- Asians, American Indians, and "others" represent 4 percent of the EZ and SZ population and are projected to maintain their percentage through 2001. Countywide, the Asian/Pacific Islander population has grown more than 19 percent from 1990 to 1996 and accounts for almost 1.2 million persons.

---

<sup>1</sup> The LACDB also provides financing to eligible businesses that relocate to our market area. However, as there is no reasonable basis on which to predict the nature and scale of this transient source of business activity, this section focuses on the primary market areas as defined.

<sup>2</sup> It should be noted that the 158 census tracts that comprise the Supplemental Section 108 Areas intersect with some of the census tracts that make up the Supplemental Zone. Therefore these two areas, the Supplemental Section 108 Areas and the Supplemental Zone, are not mutually exclusive.

<sup>3</sup> The LACDB has \$115.0 million in Section 108 that it must focus on the Empowerment Zone, no more than 25% (or \$28.8 million) can be loaned with the Supplemental Zone. As of September 30, 1998, the LACDB had loaned \$13.4 million to eligible businesses within the Supplemental Zone.

<sup>4</sup> ULI-Urban Land Institute. *Los Angeles, California: Recommendations for the Establishment of A Multibank Community Development Corporation for Economic Development in South Central Los Angeles*. 1992. Washington, D.C.

<sup>5</sup> Pollard, J.S. "Banking at the Margins: A Geography of Financial Exclusion in Los Angeles." *Environment and Planning A*. Volume 28 (1996): 1209-1232.

<sup>6</sup> Pollard, J.S.

<sup>7</sup> California. State Assembly. Special Committee on the Los Angeles Crisis. 1992. *To Rebuild is Not Enough: Final Report and Recommendations of the Assembly Special Committee on the Los Angeles Crisis*. Assemblyman Curtis R. Tucker, Jr., Chair.

<sup>8</sup> California. State Assembly.

<sup>9</sup> California. State Assembly.

<sup>10</sup> The funding for the EZ and SZ is broken down by the City and County portions, with the City area receiving \$200.0 million in Section 108 and EDI funds and the County area receiving \$30.0 million in Section 108 and EDI funds.

<sup>11</sup> Meyer, Peter B., Reaves, Christopher W. "Brownlining Banks: The Bank Merger Movement and Urban Redevelopment." *Journal of Economic Issues*. June 1997. Volume 31.

<sup>12</sup> *Washington Post*. 17 September 1998. Kathleen Day. "Banks Risk New Wave of Bad Debt."

<sup>13</sup> *The Record (Bergen County, NJ)*. 24 September 1998. Marcy Gordon. "Senate Oks Plan to Restrict Bankruptcies; Needs Accord with House."

<sup>14</sup> *Los Angeles Times*. 16 September 1998. Don Lee. "State's Job Forecast Revised Downward but Still Strong."

<sup>15</sup> *Los Angeles Times*. 23 September 1998. Marla Dickerson and Don Lee. "Region's Small Firms Say Sales Lagging." The survey was conducted with firms in Los Angeles, Orange, San Diego, Riverside, San Bernardino and Ventura counties.

<sup>16</sup> *Wall Street Journal*. 23 September 1998. David D. Kirkpatrick. "REIT's Status is Brightening."

<sup>17</sup> *Los Angeles Times*. 20 August 1998. "L.A. County Succeeding in Bid to Get Poor off Aid."

<sup>18</sup> *Los Angeles Times*. 9 September 1998. "Day-Care Study Urges Plan to Ease Shortages."

---

<sup>19</sup> Information Sheet from the Mayor Riordan's Office of Economic Development. From a presentation made by Deputy Rocky Delgadillo at LACDB's Annual Public Meeting, February 1998.

<sup>20</sup> *LACDB Microloan Survey* conducted in May and June 1998 by John De Mesa, Microloan Officer. The 15 microlenders were taken from a report, received at a Federal Reserve Bank Roundtable, which listed top microlenders who made loans of less than \$50,000 in Southern California.

<sup>21</sup> *Los Angeles Times*. 23 September 1998. "SBA Expanding Two Loan Programs."

<sup>22</sup> *PRIME Act Fact Sheet*. "Attachment D for 16 September 1998 Meeting." AEO Policy Committee.

<sup>23</sup> *Los Angeles Times*. 3 August 1998. Julius Wamey. "Tiny Loan Programs May Get \$105-Million Boost in Senate."

<sup>24</sup> CD Tech's definition of the "neglected areas" of L.A. County is different from that of the LACDB's market area, although a majority of both areas are the same.

<sup>25</sup> The data was procured from the Claritas Corporation and is based on the 1990 U.S. Census. The EZ is defined by 41 census tracts, and the SZ is defined by those census tracts that include 25 percent or more of the SZ.

## Section VIII

### MARKETING PLAN

The primary goal of the Marketing Plan is to implement the LACDB's mission to create sustainable jobs for the benefit of EZ residents. This is achieved by defining a clear and consistent message of the LACDB's mission, objectives and strategies for targeting businesses, industries, and soliciting input and feedback from prospective and current borrowers

In its first year of operation, the marketing efforts consisted almost entirely of community forums arranged through the offices of elected officials. The LACDB has since implemented a multi-pronged marketing approach in order to reach the businesses in the EZ as well as to attract job-creating enterprises into the EZ. This approach will target individual businesses, industries, and utilize the networks of Co-Lenders, Financial Intermediaries and Technical Assistance Providers.

The LACDB utilizes two methods of delivering its business loan products: Direct and Indirect Lending. The LACDB marketing strategy is designed to address the delivery of each of the products developed for each of those programs to ensure the most effective use of resources. The LACDB's marketing strategy includes the utilization of targeted research and the development of collateral materials to enhance the communication of the LACDB's programs and products.

There will also be an industry-targeting component of the LACDB marketing strategy. The LACDB will utilize the resources of LA Prosper Partners (LAPP), a partnership between Community Development Technologies Center at Los Angeles Trade Technical College, the Los Angeles Community College District and the Mayor's Office of Economic Development. These LACDB marketing strategies for delivery of its loan products are described in detail.

#### LACDB CHALLENGES

The goals of the LACDB are also its challenges. The LACDB finances eligible businesses that have been unable to obtain traditional credit elsewhere. In some cases, these businesses may not be seeking financing for the sole purpose of creating jobs. In addition, although the LACDB seeks to target higher-skilled, higher-paying job opportunities for the residents of the EZ, the resident labor force is limited and requires training to upgrade job skills. (The LACDB recognizes the need to address the skill needs of EZ residents, and therefore has devised strategies, described in the *Workforce Preparation Strategies* of the *Marketing and Outreach Strategies*.)

#### MARKET ANALYSIS OF "COMPETITORS"

The LACDB is pursuing cooperative agreements with other providers of loan products that target "nearly-bankable" businesses. Therefore, the LACDB does not have any true "competitors"; the LACDB plans to enjoy complementary relationships with other community lenders to serve EZ businesses that cannot secure traditional financing.

These alternative loan funds for "nearly-bankable" businesses include the LA Local Development Corporation (LALDC); the City Community Development Department (CDD); and, the County Community Development Commission (CDC). Each targets businesses that have been unable to access financing through traditional methods (although, generally the maximum loan amounts are under \$1.0 million, whereas the LACDB makes loans of up to \$20.0 million).

## LOAN PROGRAM MARKETING STRATEGIES

### Direct Lending

1999 will see more aggressive marketing efforts by the business team, using the following strategy enhancements:

- **Geographic Targeting.** Each lender has been assigned to one (or more council offices) and the affected Supervisorial offices, with introductions at the appropriate staff level. Regular contact will be required, and resulting referrals will be tracked and evaluated. Council offices and Supervisorial offices are being asked to refer lenders to CBOs active within their political districts, with the objective of lenders bringing the mission and objectives of LACDB to the grass-roots level of the communities served.

Supporting this effort is information concerning HUD eligible census tracts in which the LACDB can lend its Supplemental Section 108 funds. Each council district is being briefed on census tracts within their districts that have a low- and moderate-income population of 70 percent or greater and provided with maps that display the areas. This should result in additional referrals, and greatly expands the number of applicants.

- **Commercial Bank Declines.** In the 4<sup>th</sup> Quarter 1998, the Business Development Team will initiate a new program to regularly review transactions turned down by the SBA and its commercial lenders on a regular basis. Additionally, the lending team will be contacting local commercial bank branch managers within the Empowerment Zone and HUD eligible census tracts and asking for turnaround referrals.
- **Referrals from Business Professionals.** In 1999, the LACDB will examine the feasibility of implementing a program to pay existing borrowers, commercial lending institutions, CPA's, attorneys, and real estate brokers a "referral fee" for transactions referred to and funded by the LACDB.
- **Media Advertising.** Improved advertising that focuses on LACDB's lending process and product availability will be developed. One idea under discussion is production of an "infomercial," which can be used as an introduction for "walk-ins" (i.e., potential customers that comes to the LACDB for financing).
- **Leverage Strategic Alliances.** Aggressively market LACDB's capabilities to the Mayor's Business Team by the assigned lenders. Additionally, develop stronger and more active relationships with LACDB's strategic partners. Attend more small business forums and conferences that have been screened for high business potential.
- **Declined Loan Log.** Revisit the declined database to determine if any of these businesses may now be better prepared to be potential borrowers.
- **Management Controls.** Lenders will be required to make a minimum number of new business calls each month which will be tracked and captured for time management and performance evaluation purposes.

### BROADER MARKETING STRATEGIES

In addition to the product-focused strategies defined in the prior section, the LACDB will implement broader initiatives that support direct and indirect lending and investment. These efforts, targeting specific industries and strategic partners, are described below.

#### Indirect Lending Marketing Strategies.

The LACDB will continue to provide the umbrella advertising and promotion of the products offered by the Financial Intermediaries in order to ensure consistency and to create economies of scale. By engaging the

Financial Intermediaries into the LACDB's Indirect Lending Program, the Intermediaries' substantial knowledge of the target market is leveraged. Listed below are the methods by which the LACDB plans to market and promote its Financial Intermediaries:

- *Program Brochure.* A brochure has been developed to spotlight the LACDB's Financial Intermediaries and the products they offer.
- *Information Bulletins.* Will describe the history and current operations of the LACDB. The Bulletins will also contain a more detailed description about the services being provided by the Financial Intermediaries.
- *LACDB Newsletter.* The LACDB will continue to feature borrower profiles of transactions originated by Financial Intermediaries.
- *Newspaper Articles.* The LACDB will issues press releases (with permission of the borrower) on loans originated by Financial Intermediaries, focusing on unique human-interest aspects.
- *Presentations.* The Financial Intermediaries will be requested to promote the products they will be offering on behalf of the LACDB in presentations they make to community organizations.

In 1999, the Microloan Intermediary Program will be launching new innovative marketing efforts based on proposals submitted as a result of the 1998 program recommendations. Some of these marketing efforts include hosting "how-to apply for a LACDB microloan" workshops and mixers, setting up ongoing relationships with local banks, radio and cable television spots, telemarketing, targeted mailings to associations (i.e., manufacturing associations), local newspaper coverage of microloan borrowers and effective reprints and reuse of articles. The net effect of these marketing efforts is to significantly increase the loan volume to the LACDB. The Microloan Intermediaries have projected a total of 84 loan applications as a result of these increased marketing efforts.

### **Co-Lending Marketing Strategies**

Following extensive discussions with representatives of the major regional banks in the 3<sup>rd</sup> Quarter of 1998 and the Board of Directors, the LACDB's co-lending initiatives are being re-formulated to emphasize pre-lending technical assistance to potential borrowers, venture capital financing and co-lending. These initiatives will be finalized and implemented in 1999.

- *Regulatory Partnerships.* The LACDB has established a partnership with the Federal Reserve Bank of San Francisco to better promote the LACDB's Co-Lending Program. This partnership includes participating in the Federal Reserve Bank's CRA Roundtable meetings. In addition, partnerships are being established with Comptroller of the Currency.

### **Venture Capital Program Marketing Strategies**

The LACDB's Venture Capital Investment Strategy will be implemented through the formation of venture capital funds. The first fund, Zone Ventures, LP ("Zone Ventures") was formed on July 31, 1998 for the purpose of making venture capital investments in businesses located in the EZ. The LACDB, as sole limited partner of the fund, has allocated \$25.0 million for Zone Ventures investments. The fund is managed by its general partner, Zone Ventures Management, LLC, an affiliate of Draper Fisher Jurvetson.. Zone Ventures will open its headquarters office in the EZ in November 1998 and expects to close its first investment in the 4<sup>th</sup> Quarter 1998.

The LACDB is engaged in discussions with FAME Renaissance Hancock Venture LLC, owned by FAME Renaissance Joint Venture Group, LLC (an affiliate of FAME Renaissance) and Hancock Park Development

Capital LLC (an affiliate of Hancock Park Associates), regarding formation of a second venture capital fund. The LACDB expects to complete the formation of the second fund before year-end 1998.

### **Defined Industry Sector Marketing Strategies**

The *Defined Industry Sector Strategy* will focus on 9 key industries: Apparel, Biomedical, Electronics, Furniture, Food Processing, Metalworking, Plastics, Textiles and Toys. The current focus is on the Apparel industry, and a Request for Proposal (RFP) to solicit innovative proposals, which promote the upgrading of technology and facilities in the apparel industry, was released in July 1998. The proposals received were being evaluated as of the end of the 3<sup>rd</sup> Quarter 1998 with selections expected in the 4<sup>th</sup> Quarter. The RFP for the Food Processing industry, following a similar framework to the Apparel industry RFP, will be rolled out in the 4<sup>th</sup> Quarter 1998. The Metalworking industry will be the focus of the third RFP implemented by the LACDB, and will be released in the 1<sup>st</sup> Quarter 1999.

### **Regional Economic Collaborative Strategies**

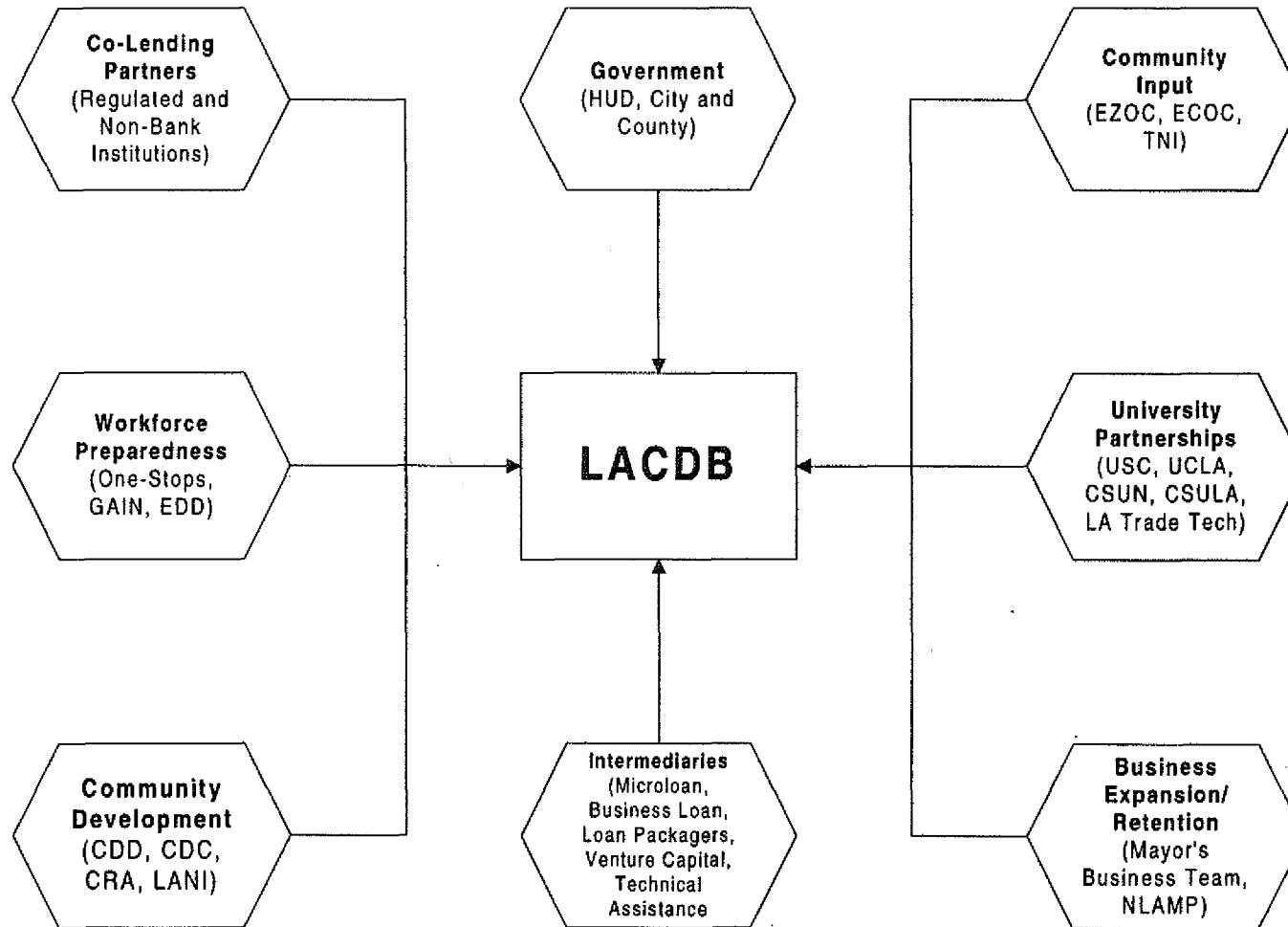
The LACDB is creating linkages to existing regional economic initiatives as a mechanism for creating economic empowerment in the EZ. Several regional economic initiatives will have reverberations throughout the EZ and will present opportunities for LACDB. There exist numerous opportunities for strategic alliances among the LACDB and organizations with like-minded missions within the EZ, including the Community Redevelopment Agency (CRA), the Los Angeles Neighborhood Initiative (LANI) and the Targeted Neighborhood Initiative (TNI). The potential strategic alliances are discussed in this section:

- *The Los Angeles Community Redevelopment Agency (CRA)*. There are a number of redevelopment project areas that share geography with the EZ. The CRA, whose primary goal in these communities is the elimination of physical blight, uses the proceeds of tax increments to finance land acquisition, site clearance, and public improvements. We will coordinate with the CRA by identifying fully entitled commercial and industrial projects that have the potential to create jobs for the benefit of EZ residents. We will meet with principals of these development projects to determine if LACDB financing is appropriate and required to proceed with implementation.
- *LANI*. The Los Angeles Neighborhood Initiative (LANI) was formed in 1994 to bring a sense of identity and ownership to the transportation corridors throughout the city. By improving the streetscape along heavily traveled transportation corridors, LANI helps improve the living environment for residents using public transit and also acts as a catalyst to draw in other development projects. LANI's success owes to building human infrastructure by training community leaders to gain consensus, make decisions and gain knowledge in project planning and development. There are three LANI neighborhoods that overlap with the EZ:
  - *Vernon Central*. (Empowerment Zone)
  - *Boyle Heights*. (Supplemental Zone)
  - *Vermont Square*. (Supplemental Zone)

LACDB will strive to target lending activities within the LANI neighborhoods in the EZ to leverage public investment and empowerment efforts already underway.

Exhibit 14 illustrates some of the significant strategic alliances with the LACDB.

# STRATEGIC ALLIANCES



- *Targeted Neighborhoods Initiative.* The Targeted Neighborhood Initiative (TNI) was created in response to the Mayor's Executive Directive No. 9. TNI's goal is to improve the city's capacity to assist in neighborhood preservation, stabilization and revitalization. The city is combining existing city resources with an additional allocation of Community Development Block Grant (CDBG) funds. The additional allocation of CDBG funds is \$3.0 million per neighborhood (allocated at \$1.0 million per year for three years) and will be combined with existing city funding to undertake revitalization projects and encourage additional private sector investment in the Targeted Neighborhoods.

The key feature, which will determine the success of the program, is the creation of interdepartmental teams and a citizen participation process with residents of the 11 targeted areas which, together, will recommend the mix of city programs and resources best suited to address the needs of their neighborhoods.

Four of the eleven neighborhoods identified as needing additional community development activities fall within the EZ. The following is a list of these four Targeted Neighborhoods, which coincide with the Empowerment Zone and Supplemental Zone:

- *Boyle Heights/Lincoln Heights.* (Empowerment Zone)
  - *Central Avenue.* (Empowerment Zone)
  - *South Crenshaw Blvd.* (Supplemental Zone)
  - *Exposition Park West.* (Supplemental Zone)
- *The Alameda Corridor Initiative.* The Alameda Corridor will run along the eastern boundary of the EZ. The LACDB will capitalize on the opportunity that the Corridor presents and will attempt to link vendors to the Corridor project (e.g., construction firms).
  - *California Organization of Investment Network (COIN).* COIN was organized by the California Department of Insurance to address the potential of Community Reinvestment Act (CRA) for the insurance industry and to show the commitment of the insurance industry to low-income communities. COIN may potentially benefit businesses located in the EZ.

## Section IX

### FINANCIAL PLAN

#### LACDB ADMINISTRATIVE EXPENSES

As set forth in Exhibit 15, the LACDB projects its annual administrative expenses will total approximately \$3.7 million in 1999. In 1998, the budgeted administrative expenses were \$3.6 million, indicating an increase of approximately \$100,000.

As shown, staffing expenses are projected to account for 73 percent, or nearly three-quarters, of total LACDB administrative expenses in 1999. This amount is up by \$300,000 from 1998 budget levels, due to additional employees hired in 1998. The 1999 staffing expenses total includes a 5 percent allowance for performance-based merit increases.<sup>1</sup> The 1999 Business Plan projects a total LACDB staffing plan of 36 employees, including one new position (Workout Specialist) in Loan Administration.

#### PROJECTED RESOURCE ALLOCATION PLAN (PRAP)

The LACDB's resource allocation for the Economic Development Grant (EDI) and the Section 108 Loan Guarantee funds by political jurisdiction (i.e., City and County of Los Angeles) and program for the 1999 Business Plan year are set forth in Exhibit 16. Also shown is the projected resource allocation within the Empowerment Zone (EZ) and Supplemental Zone (SZ) and the HUD eligible census tract areas outside the EZ. The EZ funds may be used in the City and County EZ (including areas within a one-mile radius of the EZ). The Supplemental Section 108 loan funds may be used in the Section 108 eligible areas of the city (including the EZ, Enterprise Community and other areas of the city that meet the resident income qualifications).

In the Appendix portion of this Business Plan, we have provided detailed schedules that constitute the Projected Resource Allocation Plan (PRAP). The PRAP includes the 9 program years during which EDI proceeds can be drawn. Also, the total allocations by program have been increased by \$19.0 million to bring the total to \$230.0 million. This is the total for the EZ area consisting of \$100.0 million City EDI, \$15.0 million County EDI, \$100.0 million City Section 108 and \$15.0 million County Section 108.

#### Definitions

**Loans** means loans and investments made to end-borrowers. Loans can be direct (originated by LACDB), indirect (originated by Financial Intermediaries) or co-lending (lending by private or community lenders). With the exception of microloans whose source of funding is EDI grant funds, all other loans are funded with Section 108 proceeds. Once the Section 108 proceeds are depleted, any unallocated EDI and net interest income (i.e., after Section 108 loan servicing) will be used to continue those loan programs that have been the most successful in meeting the LACDB's mission.

**Loan Loss Reserves** refers to EDI funds that are drawn and put on deposit with the collateral agent to cover projected losses from loans that are not repaid. The percentage of reserve differs by product and program based on the estimates of the risk of loss. The Loan Loss Reserve is funded with EDI. The percentages in the preliminary Business Plan are used in this model. They are as follows:

---

<sup>1</sup> A goal-based performance evaluation program was developed and implemented in 1998. The performance-based merit compensation program is subject to review and approval by the LACDB Board of Directors.

**Exhibit 15**

**LOS ANGELES COMMUNITY DEVELOPMENT BANK  
1999 ADMINISTRATIVE BUDGET AND USE OF  
EDI GRANT FUNDS**

|                                      | <b>1997<br/>Actual</b> | <b>1998<br/>Projected</b> | <b>1998<br/>Budget</b> | <b>1999<br/>Proposed</b> |
|--------------------------------------|------------------------|---------------------------|------------------------|--------------------------|
| <b>Salaries</b>                      | \$ 1,490,394           | \$ 1,810,000              | \$ 2,064,800           | \$ 2,360,237             |
| <b>Staff-Related Expenses</b>        | 193,723                | 255,368                   | 315,328                | 333,300                  |
| <b>Total Staff Expenses</b>          | <b>1,684,117</b>       | <b>2,065,368</b>          | <b>2,380,128</b>       | <b>2,693,537</b>         |
| <b>Office and Administrative</b>     | 955,687                | 642,935                   | 929,111                | 961,500                  |
| <b>Capital Budget</b>                | 239,786                | 326,061                   | 326,061                | 55,000                   |
|                                      | 1,195,473              | 968,996                   | 1,255,172              | 1,016,500                |
| <b>Total Program</b>                 | <b>2,879,590</b>       | <b>3,034,364</b>          | <b>3,635,300</b>       | <b>3,710,037</b>         |
| <b>Debt Service Reserve</b>          | 1,474,000              | 3,200,000                 | 2,732,000              | 2,800,000                |
| <b>Loan Loss Reserve</b>             | 1,474,000              | 2,650,000                 | 4,369,000              | 2,300,000                |
| <b>Intermediary Compensation</b>     | 28,000                 | 1,118,524                 | 2,396,000              | 1,074,000                |
| <b>Microloan Disbursements</b>       | 217,000                | 350,000                   | 1,200,000              | 600,000                  |
| <b>Venture Capital Disbursements</b> | -                      | 3,000,000                 | 4,000,000              | 8,000,000                |
| <b>Technical Assistance</b>          | 5,000                  | 403,024                   | 1,995,000              | 2,000,000                |
| <b>CDO Equity Program</b>            | -                      | 150,000                   | 2,000,000              | 2,000,000                |
| <b>Subtotal</b>                      | <b>3,198,000</b>       | <b>10,871,548</b>         | <b>18,692,000</b>      | <b>18,774,000</b>        |
| <b>TOTAL</b>                         | <b>\$ 6,077,590</b>    | <b>\$ 13,905,912</b>      | <b>\$ 22,327,300</b>   | <b>\$ 22,484,037</b>     |

| <b>LACDB Program</b>                | <b>Loan Loss Reserve<br/>(in percent)</b> |
|-------------------------------------|---|
| Microloan Program                   | 40 %                                      |
| Business Loan Program               | 10 %                                      |
| Commercial Real Estate Loan Program | 5 %                                       |
| Venture Capital Program             | 30 %                                      |

**Debt Service Reserves** refers to EDI funds drawn and on deposit with the collateral agent to service the debt to HUD for the Section 108 borrowings. This amount is defined as one-year's principal and interest at the prevailing interest rate and assuming a 20-year amortization. For the purposes of the projection, this amount is conservatively estimated at 10 percent of the outstanding HUD borrowings. At present, the LACDB's cost of funds is approximately 6.5 percent (London Inter-Bank Offering Rate, plus 20 basis points) using an interim borrowing arrangement from HUD's fiscal agent.

As noted in last year's Business Plan, in 1999 the entire microloan program is funded entirely with EDI grant proceeds. This change, requested by the City and acknowledged by both the City and County in their approval of 1997 Business Plan, eliminates the need for debt service reserves for the microloan program.

**Intermediary Program Expense** refers to EDI funds drawn and paid to third parties for the indirect delivery of the indicated LACDB program. These funds may be paid to Intermediaries, non-profit service providers, for-profit service providers or private lending organizations. For example, program delivery includes fees paid to Financial Intermediaries for originating, packaging, underwriting, and managing loans under the Microloan and Business Loan Intermediary Programs.

**Administrative Expenses** includes the direct and indirect expenses related to direct lending activities and support functions, staff, and facilities of the LACDB. Included are salaries, lease payments, equipment, professional fees, accounting fees and other eligible activities funded with EDI funds.

#### Notes and Assumptions

**Microloan Program.** Microloan Intermediaries will implement this Indirect Lending Program, with support provided by LACDB staff. The Microloan Intermediaries will originate, package, and structure loans -- ranging from \$1,000 to \$25,000 -- for presentation to their internal loan committees. Recommended loan requests are forwarded to the LACDB for review and approval. The LACDB has implemented an internal microloan credit committee that meets on a weekly basis to consider microloan requests. If approved, the LACDB prepares streamlined loan documents, closes and funds the loan. Intermediaries in this Indirect Lending Program received compensation on a fee-for-performance basis, as follows: \$5,000 per funded microloan. The fee paid to Intermediaries includes compensation for two years of post-loan relationship management, including technical assistance.

| <b>No. of Loans</b> | <b>Average Loan Size</b> | <b>Loan Volume</b> | <b>Intermediary Program Expense</b> |
|---------------------|--------------------------|--------------------|-------------------------------------|
| 30                  | \$20,000                 | \$600,000          | \$150,000                           |

As shown, it is assumed that the Microloan Intermediaries will generate 30 funded loans during 1999, with a total loan volume of \$600,000. Assuming an average loan size of \$20,000, compensation to the Microloan Intermediaries is estimated at \$150,000 (i.e., 30 loans at \$5,000 per funded loan).

**Business Loan Program.** LACDB loan officers will continue to aggressively market and originate new business loans. With the launch of the Financial Intermediary Programs, the LACDB will focus exclusively on

direct lending for loans in excess of \$500,001 up to \$10.0 million. This targeting will enable the Business Loan Intermediaries to target loan activity under \$500,000. The direct lending activity for 1999 is shown below.

| No. of Loans | Average Loan Size | Loan Volume  |
|--------------|-------------------|--------------|
| 30           | \$500,000         | \$15,000,000 |

As shown, LACDB loan officers are projected to generate 30 loans with an average dollar amount of \$500,000, resulting in funded loans totaling \$15.0 million in 1999.

**Business Loan Program (Indirect).** Business Loan Financial Intermediaries will implement this Indirect Lending Program. Much like the Microloan Program, Business Loan Intermediaries will originate, package, and structure loans for presentation to their internal loan committees. Recommended loan requests are forwarded to the LACDB. In 1998, the LACDB Board of Directors delegated to staff the authority to approve transactions of between \$25,001 and \$250,000, loan requests of between \$250,001 and \$500,000, are presented to the LACDB's Credit Committee (a committee containing Board members and non-Board members with monthly meetings). If approved, the loans are closed and funded by the LACDB. Intermediaries in this Indirect Lending Program receive compensation of \$7,000 per funded loan, as follows: \$5,000 at loan funding, and \$2,000 in quarterly installments over a 2-year post-funding period to cover the Intermediaries costs for providing relationship management.

| No. of Loans | Average Loan Size | Loan Volume | Intermediary Program Expense |
|--------------|-------------------|-------------|------------------------------|
| 20           | \$150,000         | \$3,000,000 | \$140,000                    |

As shown, it is assumed that the Business Loan Intermediaries will generate 20 funded loans during 1999, with a total loan volume of \$3.0 million. Assuming an average loan size of \$150,000, compensation to the Business Loan Intermediaries is estimated at \$140,000 (i.e., 20 loans at \$7,000 per funded loan).

**Commercial Real Estate Loan Program.** This direct lending program will target eligible projects within the EZ/SZ and in eligible census tracts of the City of Los Angeles. Assumptions for 1999 are set forth as follows:

| No. of Loans | Average Loan Size | Loan Volume  |
|--------------|-------------------|--------------|
| 30           | \$750,000         | \$23,000,000 |

As indicated, it is projected that LACDB loan officers will generate approximately \$23.0 million in commercial real estate loans, which at an average value of \$750,000 would produce 30 discrete transactions.

**Business and Technical Support Program (Indirect).** The Business and Technical Support Program is comprised of the Loan Packaging Services (LPS) Program and the Business and Technical Support Intermediary Program. Expense allocated in the PRAP for Business and Technical Support Intermediary Program is \$2.0 million.

**Venture Capital Program (Indirect).** With the selection of one investment management advisor in 3<sup>rd</sup> Quarter 1998 and continued negotiations with a second investment manager, the LACDB Venture Capital Fund projects its first full year of activity in 1999. As described elsewhere in this Business Plan, the Fund will target investments in portfolio companies that, in turn, will provide capital to small and medium-sized businesses in the EZ.

| No. of Investments | Average Investment Size | Investment Volume |
|--------------------|-------------------------|-------------------|
| 7                  | \$1,150,000             | \$8,000,000       |

The minimum investment will be \$100,000, with a targeted initial investment of between \$300,000 to \$2.0 million. Assuming an average loan of \$1.15 million (midpoint between \$300,000 and \$2.0 million), the budgeted amount could produce nearly seven transactions totaling \$8.0 million in 1999.

**CDO Equity Program.** In 1999, the LACDB expects to close eligible transactions totaling \$2.0 million. Program parameters are described in this Business Plan.

As shown, the PRAP allocates \$2.0 million to be placed as equity in eligible, job-generating development projects selected through a competitive proposal process.

Exhibit 16

LOS ANGELES COMMUNITY DEVELOPMENT BANK  
1999 PROJECTED RESOURCE ALLOCATION PLAN (PRAP)  
CITY AND COUNTY OF LOS ANGELES

| FUND SOURCE/AREA/PROGRAM                       | LOANS                | LOAN<br>LOSS<br>RESERVES | DEBT<br>SERVICE<br>RESERVES | INTERMEDIARY<br>PROGRAM<br>EXPENSE | ADMINISTRATIVE<br>EXPENSES | TOTALS               |
|--|----------------------|--------------------------|-----------------------------|------------------------------------|----------------------------|----------------------|
| <b>EMPOWERMENT ZONE FUNDS - CITY PORTION</b>   |                      |                          |                             |                                    |                            |                      |
| Indirect Lending & Investment Programs         |                      |                          |                             |                                    |                            |                      |
| Microloans                                     | \$ 525,000           | \$ -                     | \$ -                        | \$ 131,000                         | \$ 132,000                 | \$ 788,000           |
| Business Loans                                 | 2,500,000            | 250,000                  | 250,000                     | 126,000                            | 375,000                    | 3,501,000            |
| Venture Capital                                | 7,250,000            | -                        | -                           | 761,000                            | 267,000                    | 8,278,000            |
| Subtotal                                       | 10,275,000           | 250,000                  | 250,000                     | 1,018,000                          | 774,000                    | 12,567,000           |
| Direct Lending Program                         |                      |                          |                             |                                    |                            |                      |
| Business Loans                                 | 14,000,000           | 1,400,000                | 1,400,000                   | -                                  | 1,015,000                  | 17,815,000           |
| Commercial Real Estate Loans                   | 9,900,000            | 495,000                  | 990,000                     | -                                  | 740,000                    | 12,125,000           |
| Subtotal                                       | 23,900,000           | 1,895,000                | 2,390,000                   | -                                  | 1,755,000                  | 29,940,000           |
| Other Programs                                 |                      |                          |                             |                                    |                            |                      |
| Business Support & Technical Assistance        | -                    | -                        | -                           | 1,800,000                          | 270,000                    | 2,070,000            |
| CDO Equity                                     | 1,700,000            | -                        | -                           | -                                  | 255,000                    | 1,955,000            |
| Subtotal                                       | 1,700,000            | -                        | -                           | 1,800,000                          | 525,000                    | 4,025,000            |
| <b>Total - City Portion</b>                    | <b>\$ 35,875,000</b> | <b>\$ 2,145,000</b>      | <b>\$ 2,640,000</b>         | <b>\$ 2,818,000</b>                | <b>\$ 3,054,000</b>        | <b>46,532,000</b>    |
| <b>EMPOWERMENT ZONE FUNDS - COUNTY PORTION</b> |                      |                          |                             |                                    |                            |                      |
| Indirect Lending & Investment Programs         |                      |                          |                             |                                    |                            |                      |
| Microloans                                     | \$ 75,000            | -                        | -                           | 19,000                             | 58,000                     | 152,000              |
| Business Loans                                 | 500,000              | 50,000                   | 50,000                      | 14,000                             | 75,000                     | 689,000              |
| Venture Capital                                | 750,000              | -                        | -                           | 79,000                             | 23,000                     | 852,000              |
| Subtotal                                       | 1,325,000            | 50,000                   | 50,000                      | 112,000                            | 156,000                    | 1,693,000            |
| Direct Lending Program                         |                      |                          |                             |                                    |                            |                      |
| Business Loans                                 | 1,000,000            | 100,000                  | 100,000                     | -                                  | 185,000                    | 1,385,000            |
| Commercial Real Estate Loans                   | 100,000              | 5,000                    | 10,000                      | -                                  | 10,000                     | 125,000              |
| Subtotal                                       | 1,100,000            | 105,000                  | 110,000                     | -                                  | 195,000                    | 1,510,000            |
| Other Programs                                 |                      |                          |                             |                                    |                            |                      |
| Business Support & Technical Assistance        | -                    | -                        | -                           | 200,000                            | 30,000                     | 230,000              |
| CDO Equity                                     | 300,000              | -                        | -                           | -                                  | 45,000                     | 345,000              |
| Subtotal                                       | 300,000              | -                        | -                           | 200,000                            | 75,000                     | 575,000              |
| <b>Total - County Portion</b>                  | <b>\$ 2,725,000</b>  | <b>\$ 155,000</b>        | <b>\$ 160,000</b>           | <b>\$ 312,000</b>                  | <b>\$ 426,000</b>          | <b>\$ 3,778,000</b>  |
| <b>EMPOWERMENT ZONE - TOTALS</b>               | <b>\$ 38,600,000</b> | <b>\$ 2,300,000</b>      | <b>\$ 2,800,000</b>         | <b>\$ 3,130,000</b>                | <b>\$ 3,480,000</b>        | <b>\$ 50,310,000</b> |
| <b>SUPPLEMENTAL SEC. 108 FUNDS - CITY ONLY</b> |                      |                          |                             |                                    |                            |                      |
| Commercial Real Estate Loans (Direct)          | \$ 13,000,000        | \$ 260,000               | \$ 1,300,000                | \$ -                               | \$ 230,000                 | \$ 14,790,000        |
| <b>Total - Supplemental Sec. 108 Funds</b>     | <b>\$ 13,000,000</b> | <b>\$ 260,000</b>        | <b>\$ 1,300,000</b>         | <b>\$ -</b>                        | <b>\$ 230,000</b>          | <b>\$ 14,790,000</b> |
| <b>TOTAL - ALL FUNDS</b>                       | <b>\$ 51,600,000</b> | <b>\$ 2,560,000</b>      | <b>\$ 4,100,000</b>         | <b>\$ 3,130,000</b>                | <b>\$ 3,710,000</b>        | <b>\$ 65,100,000</b> |

## Section X

### ACCOMPLISHMENTS TO DATE

#### Comprehensive Agreement Section 8.02 Response

As stipulated in Section 8.02 of the LACDB Comprehensive Agreement, there are a number of specific items that must be addressed in this Revised Annual Business Plan. This section provides the information requested.

**CDB Budget.** The CDB Administrative Budget is set forth in Section IX of this Business Plan.

#### Performance Criteria Data

- **Number of Loans Issued by Category.** Commencing July 1, 1996 to September 30, the LACDB had closed loans to 63 borrowers with total value of approximately \$46.2 million: (See Exhibit 17)
- **Public Benefits Associated with the Loans.** The principal public benefit associated with the closed loans is job creation. It is estimated 1,320 permanent, sustainable jobs will be created within two years of funding.
- **Number of Grants Awarded and Purpose of Grants.** No grants were awarded in 1998. Based on discussions with HUD, the source of any grants would be EDI funds. However, since HUD requires that, in the aggregate, EDI funds are paired on a dollar-for-dollar basis with Section 108 loan proceeds, the LACDB will not be making any outright grants. Instead, EDI grant funds are used for program delivery (direct and indirect), and the funding of loan loss and debt service reserves.
- **Comparison to Planned Results.** The following text table presents a comparison of planned to actual results (as of September 30, 1998) by LACDB program.

Exhibit 18

| LACDB Program                                   | Annual Budget<br>(1998 Business Plan) | 1998 Actual<br>(as of September 30, 1998) |
|---|---------------------------------------|---|
| Microloan Program (Indirect)                    | \$ 1,200,000                          | \$ 232,000                                |
| Business Loan Program (Indirect)                | 6,500,000                             | 500,000                                   |
| Commercial Real Estate Program (Indirect)       | 1,170,000                             | --  |
| Venture Capital Program (Indirect)              | 7,068,000                             | 1,000,000                                 |
| Business Loan Program (Direct)                  | 12,000,000                            | 8,456,000                                 |
| Commercial Real Estate Loan Program<br>(Direct) | 21,674,000                            | 9,390,000                                 |
| CDO Equity Program                              | 2,000,000                             | --  |
| <b>TOTALS</b>                                   | <b>\$ 51,612,000</b>                  | <b>\$ 19,578,000</b>                      |

**Exhibit 17**

**LIST OF BORROWERS  
(as of September 30, 1998)**

| NO.          | BORROWER                     | LOCATION                        | INDUSTRY                              | SIC | AMOUNT                 |
|--------------|------------------------------|---------------------------------|---------------------------------------|-----|------------------------|
| 1            | Alameda Produce Market       | City Empowerment Zone           | Furniture Manufacture                 | 25  | B                      |
| 2            | BCA Protective               | City Supplemental Zone          | Security                              | 73  | B                      |
| 3            | California Dream Kitchen     | City Empowerment Zone           | Upscale Catering Vehicles             | 59  | B                      |
| 4            | Central New Wave Publication | City Supplemental Zone          | Non-Daily or Weekly Newspaper         | 27  | B                      |
| 5            | Copeland Beverage            | City Empowerment Zone           | Beverage Co.                          | 51  | B                      |
| 6            | Double D Western Wear        | City Supplemental Zone          | Clothing Retailer                     | 39  | B                      |
| 7            | ECOshield                    | City Empowerment Zone           | Protective Coatings                   | 75  | B                      |
| 8            | Family Ford                  | City Supplemental Zone          | Auto Dealership                       | 53  | B                      |
| 9            | Foothill Auto Electric       | City Supplemental Zone          | Auto Parts Re-manufacturer            | 50  | B                      |
| 10           | GBD Graphics                 | City Supplemental Zone          | Printing/Graphics                     | 73  | B                      |
| 11           | Golden Bird                  | City Empowerment Zone           | Restaurant Chain                      | 89  | B                      |
| 12           | Hayes Protective             | City Supplemental Zone          | Protective Services                   | 73  | B                      |
| 13           | Image Management Systems     | County Supplemental Zone        | Microfilming                          | 73  | B                      |
| 14           | Jorge's Market               | City Supplemental Zone          | Grocery                               | 54  | B                      |
| 15           | Kids on the Move             | City Supplemental Zone          | Transportation                        | 41  | B                      |
| 16           | Le Gre                       | City Empowerment Zone           | Home Accessories                      | 50  | B                      |
| 17           | Legal Services Industries    | City Supplemental Zone          | Processing and Filing Services        | 81  | B                      |
| 18           | Lido's Bungee Corp.          | City Supplemental Zone          | Wholesaler of Bungee Cords            | 50  | B                      |
| 19           | LKS Technology               | City Empowerment Zone           | Wholesale & Retail Sales of Computers | 59  | B                      |
| 20           | Luna Music                   | Outside                         | Fully-Integrated Music Co.            | 27  | B                      |
| 21           | Marcelo's Food               | City Supplemental Zone          | Wholesale Meats                       | 26  | B                      |
| 22           | New Lissee                   | City Empowerment Zone           | Cosmetics Distribution                | 51  | B                      |
| 23           | Pacoima Automotive           | City Supplemental Zone          | Gas Station                           | 55  | B                      |
| 24           | Powdermet                    | City Supplemental Zone          | Metal Coatings                        | 28  | B                      |
| 25           | PractiCare                   | City Empowerment Zone / Outside | Medical Office                        | 80  | B                      |
| 26           | Quick 'N Split Inc.          | City Supplemental Zone          | Fast Food                             | 58  | B                      |
| 27           | Royal Heirlooms              | City Empowerment Zone           | Manufacturer of High-End Upholstered  | 25  | B                      |
| 28           | Shootout Mountain            | City Supplemental Zone          | Apparel                               | 23  | B                      |
| 29           | Sinclair Trading             | City Empowerment Zone           | Food Importer                         | 26  | B                      |
| 30           | Summit Industries            | City Empowerment Zone           | Manufacturer of Sinks                 | 32  | B                      |
| 31           | Sunflower Textiles           | City Empowerment Zone           | Apparel                               | 22  | B                      |
| 32           | Trinity Knitworks            | City Empowerment Zone           | Apparel                               | 22  | B                      |
| 33           | Universal Dyeing & Printing  | City Empowerment Zone           | Dyeing and finishing textiles         | 22  | B                      |
| 34           | Value Produce, Inc.          | City Empowerment Zone           | Produce Distributor                   | 51  | B                      |
| 35           | West Coast Metal Finishing   | City Empowerment Zone           | Metal Coatings                        | 34  | B                      |
| 36           | Yaeger & Sons                | City Empowerment Zone           | Mfr. of Hand Trucks                   | 50  | B                      |
| 37           | Mead Ophthalmics             | Outside                         | Ophthalmics Lenses                    | 38  | V                      |
| 38           | Performigence                | City Supplemental Zone          | Software Developer                    | 73  | V & M                  |
| 39           | American Fleet Services      | City Supplemental Zone          | Truck & Equipment                     | 75  | M                      |
| 40           | April                        | City Empowerment Zone           | Clothing Manufacturing                | 23  | M                      |
| 41           | AYOS Graphics                | City Empowerment Zone           | Graphics & Publishing                 | 73  | M                      |
| 42           | Bumper Bob's                 | City Supplemental Zone          | Home-Based Welding Co.                | 76  | M                      |
| 43           | California Fusing            | City Empowerment Zone           | Fusing & Bonding of Fabrics           | 22  | M                      |
| 44           | Cannonball Messenger Service | City Supplemental Zone          | Delivery Service                      | 42  | M                      |
| 45           | Cupido's Bridal              | City Supplemental Zone          | Full Service Bridal Shop              | 56  | M                      |
| 46           | El Sauz Meat Market          | City Supplemental Zone          | Retail meat market                    | 54  | M                      |
| 47           | Elegant Lady                 | City Supplemental Zone          | Clothing Retail Business              | 56  | M                      |
| 48           | Flame Designer Candles       | City Supplemental Zone          | Mfr of Artistic Candles               | 39  | M                      |
| 49           | Grace's Jewelry              | City Supplemental Zone          | Jewelry Mfg.                          | 39  | M                      |
| 50           | Hyton Concrete               | City Supplemental Zone          | Concrete Pumping                      | 17  | M                      |
| 51           | J & S Artwork                | City Empowerment Zone           | Women's Casualwear                    | 23  | M                      |
| 52           | Julio's Tire and Auto Repair | City Empowerment Zone           | Engine and Transmission Repair        | 23  | M                      |
| 53           | Lease Masters                | City Empowerment Zone           | Leasing and Management Business       | 65  | M                      |
| 54           | Luzma Toys                   | City Supplemental Zone          | Toys & electronics retailer           | 59  | M                      |
| 55           | Maple Dye                    | City Supplemental Zone          | Garment Dyeing                        | 22  | M                      |
| 56           | Matus Auto Upholstery        | City Supplemental Zone          | Upholstery Services                   | 75  | M                      |
| 57           | R.C. Photo Classifieds       | City Supplemental Zone          | Advertisement Publication             | 27  | M                      |
| 58           | Universal Dairy Market       | City Supplemental Zone          | Neighborhood Store                    | 54  | M                      |
| 59           | Wendill's Chicken House      | City Supplemental Zone          | Fried Chicken Restaurant              | 58  | M                      |
| 60           | Wheel to Reel Trucking       | City Supplemental Zone          | Manufacturer of Hand Trucks           | 42  | M                      |
| 61           | Winthrop Industries          | County Supplemental Zone        | Manufacturer of Funeral Caskets       | 39  | M                      |
| 62           | Yoon's Matchpoint            | City Empowerment Zone           | Women's Garment Wholesaler            | 23  | M                      |
| 63           | Young's Co.                  | City Supplemental Zone          | Wholesaler of Clothing                | 23  | M                      |
| <b>TOTAL</b> |                              |                                 |                                       |     | <b>\$46,202,936.19</b> |

Note: B = Business Loans; V = Venture Capital; and M = Microloans

**Reconciliation of Actual Financial Results against the CDB Budget Submitted for Previous Fiscal Year.** A reconciliation of actual against budgeted administrative expenditures is set forth in Exhibit 18.

**Process By Which the Revised Annual Business Plan was developed, including the extent to which public input was solicited and received.**

The Annual Business Plan was developed based on general and specific feedback received from the public in a variety of ways, including meetings with elected officials, community residents, businesses and community-based organizations. In each of these situations, the LACDB made a presentation using a PowerPoint slide show and handouts. The presentation covered the history, governance (including provision for development of this annual business plan), sources and uses of funds, loan programs, eligibility criteria, and other salient information. A representative sample of significant opportunities provided for public input are described below:

- **Annual Public Meeting.** The Annual Community Public Meeting was held on the evening of February 4, 1998 at the Hollenbeck Middle School (Boyle Heights).
- **Presentations to EZOC and ECOC.** LACDB staff attended the monthly meetings of the Empowerment Zone and Enterprise Community Oversight Committees.
- **Los Angeles City Council.** The 1998 Annual Business Plan was the subject of public hearings before the Los Angeles City Council's Economic and Community Development Committee and City Council. At the Committee meetings, recommendations were offered by the City Administrative Office and City Legislative Analyst presented a series of recommendations and revisions, most of which are incorporated in this Business Plan.
- **County of Los Angeles Board of Supervisors.** The 1998 Annual Business Plan was reviewed by the Board of Supervisors, and approved, based on a recommendation from the Executive Director of the Community Development Commission. The recommendation included proposed revisions, many paralleling those of the city, which have been reflected in this Business Plan.

**Amount of Miscellaneous Revenue.** There will be no Miscellaneous Revenue in 1998.

**External Examinations.** The LACDB received a "No Substantial Findings" report to the examination conducted by the California Department of Corporations.

**INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION —  
SCHEDULE OF EXPENDITURES — BUDGET AND ACTUAL — ON THE BUDGETARY BASIS**

The Board of Directors  
Los Angeles Community Development Bank  
(Not a Commercial Bank):

We have audited the consolidated financial statements of Los Angeles Community Development Bank (Not a Commercial Bank) and Subsidiary (a California nonprofit corporation) (hereinafter LACDB) for the year ended December 31, 1997, and have issued our report thereon, dated April 7, 1998. LACDB's consolidated financial statements are the responsibility of its management. Our responsibility is to express an opinion on those financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and about whether management has complied with laws and regulations. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and compliance with laws and regulations. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the consolidated financial statements of Los Angeles Community Development Bank (Not a Commercial Bank) taken as a whole. The accompanying Schedule of Expenditures — Budget and Actual — on the Budgetary Basis is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. The information in that schedule has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the consolidated financial statements taken as a whole.

*KPMG Peat Marwick LLP*

April 7, 1998



**LOS ANGELES COMMUNITY DEVELOPMENT BANK AND SUBSIDIARY  
(NOT A COMMERCIAL BANK)  
(A California Nonprofit Corporation)**

Schedule of Expenditures — Budget and Actual — on the Budgetary Basis  
Year ended December 31, 1997

|  | Budget       | Actual<br>on the<br>Budgetary<br>Basis | Variance —<br>positive<br>(negative) |
|--|--------------|--|--------------------------------------|
| <b>Personnel related costs:</b>  |              |  |                                      |
| Salaries   | \$ 1,925,321 | 1,490,394                              | 434,927                              |
| Payroll taxes  | 142,281      | 98,422                                 | 43,859                               |
| Payroll service charges  | 2,240        | 1,813                                  | 427                                  |
| Group medical/dental   | 148,781      | 77,272                                 | 71,509                               |
| Workers' compensation insurance  | 7,500        | 16,216                                 | (8,716)                              |
| Total personnel related costs  | 2,226,123    | 1,684,117                              | 542,006                              |
| <b>Other program and supporting service expenditures:</b>  |              |  |                                      |
| Rent, utilities, parking and janitorial  | 203,464      | 204,752                                | (1,288)                              |
| Directors' and officers' and lenders' liability insurance  | 53,450       | 40,559                                 | 12,891                               |
| Comprehensive insurance  | 51,563       | 26,617                                 | 24,946                               |
| Travel/lodging   | 17,650       | 6,515                                  | 11,135                               |
| Business meals   | 2,980        | 4,225                                  | (1,245)                              |
| Automobile expenses — mileage and parking  | 19,048       | 6,788                                  | 12,260                               |
| Training seminars  | 67,080       | 12,871                                 | 54,209                               |
| Professional fees — consulting   | 26,990       | 26,764                                 | 226                                  |
| Professional fees — accounting   | 155,000      | 107,195                                | 47,805                               |
| Professional fees — legal  | 150,000      | 194,223                                | (44,223)                             |
| Intermediary fees  | —            | 28,368                                 | (28,368)                             |
| Office supplies  | 29,626       | 23,009                                 | 6,617                                |
| Business meetings/conferences  | 3,200        | 1,292                                  | 1,908                                |
| Telephone/fax  | 13,920       | 17,177                                 | (3,257)                              |
| Postage/messenger  | 23,200       | 16,410                                 | 6,790                                |
| Printing   | 10,000       | 8,719                                  | 1,281                                |
| Dues and subscriptions   | 4,828        | 3,363                                  | 1,465                                |
| Business promotion   | 132,500      | 135,069                                | (2,569)                              |
| Recruitment  | 4,000        | 19,645                                 | (15,645)                             |
| Collateral agent charges   | 26,000       | 19,688                                 | 6,312                                |
| Bank charges   | —            | 14,393                                 | (14,393)                             |
| Credit reports   | 6,000        | 2,512                                  | 3,488                                |
| Equipment, software and leases   | —            | 19,495                                 | (19,495)                             |
| Licenses and permits   | 1,500        | 1,398                                  | 102                                  |
| Repairs and maintenance  | 7,000        | 4,393                                  | 2,607                                |
| Miscellaneous  | 4,400        | 10,247                                 | (5,847)                              |
| Total other program and supporting services costs  | 1,013,399    | 955,687                                | 57,712                               |
| <b>Capital expenditures:</b>   |              |  |                                      |
| Tenant improvements  | 65,500       | 61,870                                 | 3,630                                |
| Software and equipment   | 368,778      | 177,916                                | 190,862                              |
| Total capital expenditures   | 434,278      | 239,786                                | 194,492                              |
| Total expenditures   | \$ 3,673,800 | 2,879,590                              | 794,210                              |
| <b>Adjustments to reconcile to expenses as reported on<br/>the consolidated statement of activities:</b> |              |  |                                      |
| Depreciation   |              | 77,824                                 |                                      |
| Capital expenditures   |              | (239,786)                              |                                      |
| Interest expense   |              | 933,577                                |                                      |
| Provision for loan losses  |              | 3,964,032                              |                                      |
| Total expenses as reported on the consolidated<br>statement of activities                                |              | \$ 7,615,237                           |                                      |

See accompanying independent auditors' report.

**APPENDIX**

**APPENDIX A**

**PROJECTED RESOURCE ALLOCATION PLAN - TOTAL**

**Los Angeles Community Development Bank**  
**Projected Resource Allocation Plan**  
(Amounts in Thousands)

| <b>Empowerment Zone Funds</b>   | <b>1996</b>  | <b>1997</b>   | <b>1998</b>   | <b>1999</b>   | <b>2000</b>   | <b>2001</b>   | <b>2002</b>   | <b>2003</b>   | <b>2004</b>  | <b>Total</b>   |
|---------------------------------|--------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|--------------|----------------|
| <b>Program</b>                  |              |               |               |               |               |               |               |               |              |                |
| Microloan (Indirect)            | 0            | 365           | 573           | 940           | 2,800         | 4,825         | 2,800         | 1,495         | 400          | 14,197         |
| Business Loan                   | 4,993        | 20,368        | 25,600        | 19,200        | 7,250         | 1,600         | 1,278         | 800           | 604          | 81,693         |
| Business Loan (Indirect)        | 0            | 25            | 2,796         | 4,190         | 4,713         | 2,967         | 50            | 50            | 50           | 14,841         |
| Commercial Real Estate Loan     | 0            | 0             | 13,300        | 12,250        | 5,075         | 3,850         | 388           | 75            | 384          | 35,322         |
| Venture Capital (Indirect) 108  | 0            | 0             | 0             | 50            | 7,711         | 6,190         | 4,655         | 4,655         | 3,888        | 27,149         |
| Venture Capital (Indirect) EDI  | 0            | 25            | 3,850         | 9,080         | 8,115         | 5,750         | 5,850         | 25            | 75           | 32,770         |
| Business/Technical Assistance   | 0            | 30            | 484           | 2,300         | 2,300         | 1,495         | 1,150         | 1,150         | 1,150        | 10,059         |
| CDO Equity                      | 0            | 5             | 165           | 2,300         | 2,300         | 2,300         | 2,300         | 2,300         | 2,300        | 13,970         |
| <b>Total Zone Funds</b>         | <b>4,993</b> | <b>20,818</b> | <b>46,767</b> | <b>50,310</b> | <b>40,264</b> | <b>28,977</b> | <b>18,470</b> | <b>10,550</b> | <b>8,851</b> | <b>230,000</b> |
| <b>Supplemental 108 Funds</b>   |              |               |               |               |               |               |               |               |              |                |
| Business Loan                   | 0            | 305           | 0             | 0             | 0             | 0             | 0             | 0             | 0            | 305            |
| Commercial Real Estate Loan     | 0            | 1,624         | 0             | 14,790        | 40,680        | 52,944        | 60,796        | 33,861        | 0            | 204,695        |
| <b>Total Supplemental Funds</b> | <b>0</b>     | <b>1,929</b>  | <b>0</b>      | <b>14,790</b> | <b>40,680</b> | <b>52,944</b> | <b>60,796</b> | <b>33,861</b> | <b>0</b>     | <b>205,000</b> |
| <b>TOTAL FUNDS</b>              | <b>4,993</b> | <b>22,747</b> | <b>46,767</b> | <b>65,100</b> | <b>80,944</b> | <b>81,921</b> | <b>79,266</b> | <b>44,410</b> | <b>8,851</b> | <b>435,000</b> |

**Los Angeles Community Development Bank  
Projected Resource Allocation Plan  
(Amounts in Thousands)**

**Summary**

| <b>Empowerment Zone Funds Program</b> | <b>Loans</b>   | <b>Loan Loss Reserves</b> | <b>Debt Service Reserves</b> | <b>Intermediary Program</b> | <b>Program Expenses</b> | <b>Total Allocation</b> |
|---------------------------------------|----------------|---------------------------|------------------------------|-----------------------------|-------------------------|-------------------------|
| Microloan (Indirect)                  | 10,000         | 0                         | 0                            | 2,399                       | 1,798                   | 14,197                  |
| Business Loan                         | 57,941         | 5,796                     | 6,026                        | 0                           | 11,930                  | 81,693                  |
| Business Loan (Indirect)              | 11,000         | 850                       | 850                          | 513                         | 1,628                   | 14,841                  |
| Commercial Real Estate Loan           | 28,559         | 1,413                     | 2,825                        | 0                           | 2,525                   | 35,322                  |
| Venture Capital (Indirect) 108        | 17,500         | 5,250                     | 1,750                        | 1,838                       | 811                     | 27,149                  |
| Venture Capital (Indirect) EDI        | 28,000         | 0                         | 0                            | 3,245                       | 1,525                   | 32,770                  |
| Business/Technical Assistance         | 0              | 0                         | 0                            | 8,708                       | 1,351                   | 10,059                  |
| CDO Equity                            | 0              | 0                         | 0                            | 12,150                      | 1,820                   | 13,970                  |
| <b>Total Zone Funds</b>               | <b>153,000</b> | <b>13,309</b>             | <b>11,451</b>                | <b>28,853</b>               | <b>23,388</b>           | <b>230,000</b>          |
| <b>Supplemental 108 Funds</b>         |                |                           |                              |                             |                         |                         |
| Business Loan                         | 250            | 25                        | 25                           | 0                           | 5                       | 305                     |
| Commercial Real Estate Loan           | 181,568        | 3,673                     | 18,157                       | 0                           | 1,296                   | 204,695                 |
| <b>Total Supplemental Funds</b>       | <b>181,818</b> | <b>3,698</b>              | <b>18,182</b>                | <b>0</b>                    | <b>1,301</b>            | <b>205,000</b>          |
| <b>TOTAL FUNDS</b>                    | <b>334,818</b> | <b>17,007</b>             | <b>29,632</b>                | <b>28,853</b>               | <b>24,689</b>           | <b>435,000</b>          |

| <b>City &amp; County</b> |         |
|--------------------------|---------|
| Total EDI                | 115,000 |
| Total 108                | 115,000 |
| Total                    | 230,000 |

| <b>City Low &amp; Moderate</b> |         |
|--------------------------------|---------|
| Supp. 108                      | 200,000 |
| CDBG                           | 5,000   |
| Total                          | 205,000 |

**Los Angeles Community Development Bank**  
**Projected Resource Allocation Plan**  
(Amounts in Thousands)

|                                 | <u>1996</u>  |                          |                             |                             |                     |                         |
|---------------------------------|--------------|--------------------------|-----------------------------|-----------------------------|---------------------|-------------------------|
|                                 | Loans        | Loan<br>Loss<br>Reserves | Debt<br>Service<br>Reserves | Intermedi<br>ary<br>Program | Program<br>Expenses | Total<br>Allocati<br>on |
| <b>Empowerment Zone Funds</b>   |              |                          |                             |                             |                     |                         |
| <b>Program</b>                  |              |                          |                             |                             |                     |                         |
| Microloan (Indirect)            | 0            |                          |                             |                             |                     | 0                       |
| Business Loan                   | 2,450        | 247                      | 499                         | 0                           | 1,797               | 4,993                   |
| Business Loan (Indirect)        | 0            |                          |                             |                             |                     | 0                       |
| Commercial Real Estate Loan     | 0            |                          |                             |                             |                     | 0                       |
| Venture Capital (Indirect) 108  |              |                          |                             |                             |                     |                         |
| Venture Capital (Indirect) EDI  | 0            |                          |                             |                             |                     | 0                       |
| Business/Technical Assistance   | 0            |                          |                             |                             |                     | 0                       |
| CDO Equity                      | 0            |                          |                             |                             |                     | 0                       |
| <b>Total Zone Funds</b>         | <b>2,450</b> | <b>247</b>               | <b>499</b>                  | <b>0</b>                    | <b>1,797</b>        | <b>4,993</b>            |
| <b>Supplemental 108 Funds</b>   |              |                          |                             |                             |                     |                         |
| Business Loan                   | 0            |                          |                             |                             |                     | 0                       |
| Commercial Real Estate Loan     | 0            |                          |                             |                             |                     | 0                       |
| <b>Total Supplemental Funds</b> | <b>0</b>     | <b>0</b>                 | <b>0</b>                    | <b>0</b>                    | <b>0</b>            | <b>0</b>                |
| <b>TOTAL FUNDS</b>              | <b>2,450</b> | <b>247</b>               | <b>499</b>                  | <b>0</b>                    | <b>1,797</b>        | <b>4,993</b>            |

**Los Angeles Community Development Bank**  
**Projected Resource Allocation Plan**  
(Amounts in Thousands)

| <u>Empowerment Zone Funds</u>   | <u>1997</u>   |                           |                              |                             |                         | <u>Total Allocation</u> |
|---------------------------------|---------------|---------------------------|------------------------------|-----------------------------|-------------------------|-------------------------|
|                                 | <u>Loans</u>  | <u>Loan Loss Reserves</u> | <u>Debt Service Reserves</u> | <u>Intermediary Program</u> | <u>Program Expenses</u> |                         |
| <b>Program</b>                  |               |                           |                              |                             |                         |                         |
| Microloan (Indirect)            | 217           | 0                         | 0                            | 28                          | 120                     | 365                     |
| Business Loan                   | 14,741        | 1,474                     | 1,474                        | 0                           | 2,679                   | 20,368                  |
| Business Loan (Indirect)        | 0             | 0                         | 0                            | 0                           | 25                      | 25                      |
| Commercial Real Estate Loan     | 0             | 0                         | 0                            | 0                           | 0                       | 0                       |
| Venture Capital (Indirect) 108  | 0             | 0                         | 0                            | 0                           | 0                       | 0                       |
| Venture Capital (Indirect) EDI  | 0             | 0                         | 0                            | 0                           | 25                      | 25                      |
| Business/Technical Assistance   | 0             |                           |                              | 5                           | 25                      | 30                      |
| CDO Equity                      | 0             |                           |                              | 0                           | 5                       | 5                       |
| <b>Total Zone Funds</b>         | <b>14,958</b> | <b>1,474</b>              | <b>1,474</b>                 | <b>33</b>                   | <b>2,879</b>            | <b>20,818</b>           |
| <b>Supplemental 108 Funds</b>   |               |                           |                              |                             |                         |                         |
| Business Loan                   | 250           | 25                        | 25                           | 0                           | 5                       | 305                     |
| Commercial Real Estate Loan     | 1,400         | 70                        | 140                          | 0                           | 14                      | 1,624                   |
| <b>Total Supplemental Funds</b> | <b>1,650</b>  | <b>95</b>                 | <b>165</b>                   | <b>0</b>                    | <b>19</b>               | <b>1,929</b>            |
| <b>TOTAL FUNDS</b>              | <b>16,608</b> | <b>1,569</b>              | <b>1,639</b>                 | <b>33</b>                   | <b>2,898</b>            | <b>22,747</b>           |

**Los Angeles Community Development Bank**  
**Projected Resource Allocation Plan**  
(Amounts in Thousands)

| <b>Empowerment Zone Funds</b>   | <b>1998</b>   |                           |                              |                             |                         | <b>Total Allocation</b> |
|---------------------------------|---------------|---------------------------|------------------------------|-----------------------------|-------------------------|-------------------------|
|                                 | <b>Loans</b>  | <b>Loan Loss Reserves</b> | <b>Debt Service Reserves</b> | <b>Intermediary Program</b> | <b>Program Expenses</b> |                         |
| <b>Program</b>                  |               |                           |                              |                             |                         |                         |
| Microloan (Indirect)            | 350           | 0                         | 0                            | 88                          | 135                     | 573                     |
| Business Loan                   | 20,000        | 2,000                     | 2,000                        | 0                           | 1,600                   | 25,600                  |
| Business Loan (Indirect)        | 2,000         | 200                       | 200                          | 93                          | 303                     | 2,796                   |
| Commercial Real Estate Loan     | 11,000        | 550                       | 1,100                        | 0                           | 650                     | 13,300                  |
| Venture Capital (Indirect) 108  |               |                           |                              |                             |                         | 0                       |
| Venture Capital (Indirect) EDI  | 3,000         | 0                         | 0                            | 600                         | 250                     | 3,850                   |
| Business/Technical Assistance   | 0             |                           |                              | 403                         | 81                      | 484                     |
| CDO Equity                      | 150           |                           |                              |                             | 15                      | 165                     |
| <b>Total Zone Funds</b>         | <b>36,500</b> | <b>2,750</b>              | <b>3,300</b>                 | <b>1,184</b>                | <b>3,034</b>            | <b>46,767</b>           |
| <b>Supplemental 108 Funds</b>   |               |                           |                              |                             |                         |                         |
| Business Loan                   | 0             | 0                         | 0                            | 0                           | 0                       | 0                       |
| Commercial Real Estate Loan     | 0             | 0                         | 0                            | 0                           | 0                       | 0                       |
| <b>Total Supplemental Funds</b> | <b>0</b>      | <b>0</b>                  | <b>0</b>                     | <b>0</b>                    | <b>0</b>                | <b>0</b>                |
| <b>TOTAL FUNDS</b>              | <b>36,500</b> | <b>2,750</b>              | <b>3,300</b>                 | <b>1,184</b>                | <b>3,034</b>            | <b>46,767</b>           |

**Los Angeles Community Development Bank**  
**Projected Resource Allocation Plan**  
(Amounts in Thousands)

| <b>Empowerment Zone Funds</b>   | <b>1999</b>   |                           |                              |                                      |                         | <b>Total Allocation</b> |
|---------------------------------|---------------|---------------------------|------------------------------|--------------------------------------|-------------------------|-------------------------|
|                                 | <b>Loans</b>  | <b>Loan Loss Reserves</b> | <b>Debt Service Reserves</b> | <b>Intermediary Program Expenses</b> | <b>Program Expenses</b> |                         |
| <b>Program</b>                  |               |                           |                              |                                      |                         |                         |
| Microloan (Indirect)            | 600           | 0                         | 0                            | 150                                  | 190                     | 940                     |
| Business Loan                   | 15,000        | 1,500                     | 1,500                        | 0                                    | 1,200                   | 19,200                  |
| Business Loan (Indirect)        | 3,000         | 300                       | 300                          | 140                                  | 450                     | 4,190                   |
| Commercial Real Estate Loan     | 10,000        | 500                       | 1,000                        | 0                                    | 750                     | 12,250                  |
| Venture Capital (Indirect) 108  | 0             | 0                         | 0                            | 0                                    | 50                      | 50                      |
| Venture Capital (Indirect) EDI  | 8,000         | 0                         | 0                            | 840                                  | 240                     | 9,080                   |
| Business/Technical Assistance   | 0             |                           |                              | 2,000                                | 300                     | 2,300                   |
| CDO Equity                      | 2,000         |                           |                              |                                      | 300                     | 2,300                   |
| <b>Total Zone Funds</b>         | <b>38,600</b> | <b>2,300</b>              | <b>2,800</b>                 | <b>3,130</b>                         | <b>3,480</b>            | <b>50,310</b>           |
| <b>Supplemental 108 Funds</b>   |               |                           |                              |                                      |                         |                         |
| Business Loan                   | 0             | 0                         | 0                            | 0                                    | 0                       | 0                       |
| Commercial Real Estate Loan     | 13,000        | 260                       | 1,300                        | 0                                    | 230                     | 14,790                  |
| <b>Total Supplemental Funds</b> | <b>13,000</b> | <b>260</b>                | <b>1,300</b>                 | <b>0</b>                             | <b>230</b>              | <b>14,790</b>           |
| <b>TOTAL FUNDS</b>              | <b>51,600</b> | <b>2,560</b>              | <b>4,100</b>                 | <b>3,130</b>                         | <b>3,710</b>            | <b>65,100</b>           |

**Los Angeles Community Development Bank**  
**Projected Resource Allocation Plan**  
(Amounts in Thousands)

| <b>Empowerment Zone Funds</b>   | <b>2000</b>   |                           |                              |                             |                         | <b>Total Allocation</b> |
|---------------------------------|---------------|---------------------------|------------------------------|-----------------------------|-------------------------|-------------------------|
|                                 | <b>Loans</b>  | <b>Loan Loss Reserves</b> | <b>Debt Service Reserves</b> | <b>Intermediary Program</b> | <b>Program Expenses</b> |                         |
| <b>Program</b>                  |               |                           |                              |                             |                         |                         |
| Microloan (Indirect)            | 2,000         | 0                         | 0                            | 500                         | 300                     | 2,800                   |
| Business Loan                   | 5,000         | 500                       | 500                          | 0                           | 1,250                   | 7,250                   |
| Business Loan (Indirect)        | 3,500         | 350                       | 350                          | 163                         | 350                     | 4,713                   |
| Commercial Real Estate Loan     | 4,000         | 200                       | 400                          | 0                           | 475                     | 5,075                   |
| Venture Capital (Indirect) 108  | 5,000         | 1,500                     | 500                          | 525                         | 186                     | 7,711                   |
| Venture Capital (Indirect) EDI  | 7,000         | 0                         | 0                            | 805                         | 310                     | 8,115                   |
| Business/Technical Assistance   | 0             |                           |                              | 2,000                       | 300                     | 2,300                   |
| CDO Equity                      | 2,000         |                           |                              |                             | 300                     | 2,300                   |
| <b>Total Zone Funds</b>         | <b>28,500</b> | <b>2,550</b>              | <b>1,750</b>                 | <b>3,993</b>                | <b>3,471</b>            | <b>40,264</b>           |
| <b>Supplemental 108 Funds</b>   |               |                           |                              |                             |                         |                         |
| Business Loan                   | 0             | 0                         | 0                            | 0                           | 0                       | 0                       |
| Commercial Real Estate Loan     | 36,000        | 720                       | 3,600                        | 0                           | 360                     | 40,680                  |
| <b>Total Supplemental Funds</b> | <b>36,000</b> | <b>720</b>                | <b>3,600</b>                 | <b>0</b>                    | <b>360</b>              | <b>40,680</b>           |
| <b>TOTAL FUNDS</b>              | <b>64,500</b> | <b>3,270</b>              | <b>5,350</b>                 | <b>3,993</b>                | <b>3,831</b>            | <b>80,944</b>           |

**Los Angeles Community Development Bank**  
**Projected Resource Allocation Plan**  
(Amounts in Thousands)

|                                 | <u>2001</u>   |                          |                             |                             |                     | Total<br>Allocati<br>on |
|---------------------------------|---------------|--------------------------|-----------------------------|-----------------------------|---------------------|-------------------------|
|                                 | Loans         | Loan<br>Loss<br>Reserves | Debt<br>Service<br>Reserves | Intermedi<br>ary<br>Program | Program<br>Expenses |                         |
| <b>Empowerment Zone Funds</b>   |               |                          |                             |                             |                     |                         |
| <b>Program</b>                  |               |                          |                             |                             |                     |                         |
| Microloan (Indirect)            | 3,500         | 0                        | 0                           | 875                         | 450                 | 4,825                   |
| Business <sup>10</sup> Loan     | 500           | 50                       | 50                          |                             | 1,000               | 1,600                   |
| Business Loan (Indirect)        | 2,500         | 0                        | 0                           | 117                         | 350                 | 2,967                   |
| Commercial Real Estate Loan     | 3,000         | 150                      | 300                         | 0                           | 400                 | 3,850                   |
| Venture Capital (Indirect) 108  | 4,000         | 1,200                    | 400                         | 420                         | 170                 | 6,190                   |
| Venture Capital (Indirect) EDI  | 5,000         | 0                        | 0                           | 500                         | 250                 | 5,750                   |
| Business/Technical Assistance   | 0             |                          |                             | 1,300                       | 195                 | 1,495                   |
| CDO Equity                      | 2,000         |                          |                             |                             | 300                 | 2,300                   |
| <b>Total Zone Funds</b>         | <b>20,500</b> | <b>1,400</b>             | <b>700</b>                  | <b>3,212</b>                | <b>3,115</b>        | <b>28,977</b>           |
| <b>Supplemental 108 Funds</b>   |               |                          |                             |                             |                     |                         |
| Business Loan                   |               | 0                        | 0                           | 0                           | 0                   | 0                       |
| Commercial Real Estate Loan     | 47,000        | 940                      | 4,700                       | 0                           | 304                 | 52,944                  |
| <b>Total Supplemental Funds</b> | <b>47,000</b> | <b>940</b>               | <b>4,700</b>                | <b>0</b>                    | <b>304</b>          | <b>52,944</b>           |
| <b>TOTAL FUNDS</b>              | <b>67,500</b> | <b>2,340</b>             | <b>5,400</b>                | <b>3,212</b>                | <b>3,419</b>        | <b>81,871</b>           |

**Los Angeles Community Development Bank**  
**Projected Resource Allocation Plan**  
(Amounts in Thousands)

|                                 | <u>2002</u>   |                          |                             |                             |                     | Total<br>Allocati<br>on |
|---------------------------------|---------------|--------------------------|-----------------------------|-----------------------------|---------------------|-------------------------|
|                                 | Loans         | Loan<br>Loss<br>Reserves | Debt<br>Service<br>Reserves | Intermedi<br>ary<br>Program | Program<br>Expenses |                         |
| <b>Empowerment Zone Funds</b>   |               |                          |                             |                             |                     |                         |
| <b>Program</b>                  |               |                          |                             |                             |                     |                         |
| Microloan (Indirect)            | 2,000         | 0                        | 0                           | 500                         | 300                 | 2,800                   |
| Business Loan                   | 250           | 25                       | 3                           | 0                           | 1,000               | 1,278                   |
| Business Loan (Indirect)        |               | 0                        | 0                           | 0                           | 50                  | 50                      |
| Commercial Real Estate Loan     | 250           | 13                       | 25                          | 0                           | 100                 | 388                     |
| Venture Capital (Indirect) 108  | 3,000         | 900                      | 300                         | 315                         | 140                 | 4,655                   |
| Venture Capital (Indirect) EDI  | 5,000         | 0                        | 0                           | 500                         | 350                 | 5,850                   |
| Business/Technical Assistance   | 0             |                          |                             | 1,000                       | 150                 | 1,150                   |
| CDO Equity                      | 2,000         |                          |                             |                             | 300                 | 2,300                   |
| <b>Total Zone Funds</b>         | <b>12,500</b> | <b>938</b>               | <b>328</b>                  | <b>2,315</b>                | <b>2,390</b>        | <b>18,470</b>           |
| <b>Supplemental 108 Funds</b>   |               |                          |                             |                             |                     |                         |
| Business Loan                   | 0             | 0                        | 0                           | 0                           | 0                   | 0                       |
| Commercial Real Estate Loan     | 54,000        | 1,080                    | 5,400                       | 0                           | 316                 | 60,796                  |
| <b>Total Supplemental Funds</b> | <b>54,000</b> | <b>1,080</b>             | <b>5,400</b>                | <b>0</b>                    | <b>316</b>          | <b>60,796</b>           |
| <b>TOTAL FUNDS</b>              | <b>66,500</b> | <b>2,018</b>             | <b>5,728</b>                | <b>2,315</b>                | <b>2,706</b>        | <b>79,266</b>           |

**Los Angeles Community Development Bank**  
**Projected Resource Allocation Plan**  
(Amounts in Thousands)

|                                 | <u>2003</u>   |                          |                             |                             |                     | Total<br>Allocati<br>on |
|---------------------------------|---------------|--------------------------|-----------------------------|-----------------------------|---------------------|-------------------------|
|                                 | Loans         | Loan<br>Loss<br>Reserves | Debt<br>Service<br>Reserves | Intermedi<br>ary<br>Program | Program<br>Expenses |                         |
| <b>Empowerment Zone Funds</b>   |               |                          |                             |                             |                     |                         |
| <b>Program</b>                  |               |                          |                             |                             |                     |                         |
| Microloan (Indirect)            | 1,033         | 0                        | 0                           | 258                         | 203                 | 1,495                   |
| Business Loan                   | 0             | 0                        | 0                           | 0                           | 800                 | 800                     |
| Business Loan (Indirect)        | 0             | 0                        | 0                           | 0                           | 50                  | 50                      |
| Commercial Real Estate Loan     | 0             | 0                        | 0                           | 0                           | 75                  | 75                      |
| Venture Capital (Indirect) 108  | 3,000         | 900                      | 300                         | 315                         | 140                 | 4,655                   |
| Venture Capital (Indirect) EDI  | 0             | 0                        | 0                           |                             | 25                  | 25                      |
| Business/Technical Assistance   | 0             | 0                        |                             | 1,000                       | 150                 | 1,150                   |
| CDO Equity                      | 2,000         | 0                        |                             |                             | 300                 | 2,300                   |
| <b>Total Zone Funds</b>         | <b>6,033</b>  | <b>900</b>               | <b>300</b>                  | <b>1,315</b>                | <b>1,743</b>        | <b>10,550</b>           |
| <b>Supplemental 108 Funds</b>   |               |                          |                             |                             |                     |                         |
| Business Loan                   | 0             | 0                        | 0                           |                             | 0                   | 0                       |
| Commercial Real Estate Loan     | 30,168        | 603                      | 3,017                       |                             | 72                  | 33,861                  |
| <b>Total Supplemental Funds</b> | <b>30,168</b> | <b>603</b>               | <b>3,017</b>                |                             | <b>72</b>           | <b>33,861</b>           |
| <b>TOTAL FUNDS</b>              | <b>36,201</b> | <b>1,503</b>             | <b>3,317</b>                | <b>1,315</b>                | <b>1,816</b>        | <b>44,152</b>           |

**Los Angeles Community Development Bank**  
**Projected Resource Allocation Plan**  
(Amounts in Thousands)

| <u>Empowerment Zone Funds</u><br><u>Program</u> | <u>2004</u> |                          |                             |                             |                     |                     |
|---|-------------|--------------------------|-----------------------------|-----------------------------|---------------------|---------------------|
|   | Loans       | Loan<br>Loss<br>Reserves | Debt<br>Service<br>Reserves | Intermedi<br>ary<br>Program | Program<br>Expenses | Total<br>Allocation |
| Microloan (Indirect)                            | 300         | 0                        | 0                           | 0                           | 100                 | 400                 |
| Business Loan                                   | 0           | 0                        | 0                           | 0                           | 604                 | 604                 |
| Business Loan (Indirect)                        | 0           | 0                        | 0                           | 0                           | 50                  | 50                  |
| Commercial Real Estate Loan                     | 309         | 0                        | 0                           | 0                           | 75                  | 384                 |
| Venture Capital (Indirect) 108                  | 2,500       | 750                      | 250                         | 263                         | 125                 | 3,888               |
| Venture Capital (Indirect) EDI                  | 0           | 0                        | 0                           |                             | 75                  | 75                  |
| Business/Technical Assistance                   | 0           |                          |                             | 1,000                       | 150                 | 1,150               |
| CDO Equity                                      | 2,000       |                          |                             |                             | 300                 | 2,300               |
| <b>Total Zone Funds</b>                         | <b>0</b>    | <b>0</b>                 | <b>0</b>                    | <b>1,263</b>                | <b>1,479</b>        | <b>8,851</b>        |
| <b>Supplemental 108 Funds</b>                   |             |                          |                             |                             |                     |                     |
| Business Loan                                   | 0           | 0                        | 0                           | 0                           | 0                   | 0                   |
| Commercial Real Estate Loan                     | 0           | 0                        | 0                           | 0                           | 0                   | 0                   |
| <b>Total Supplemental Funds</b>                 | <b>0</b>    | <b>0</b>                 | <b>0</b>                    | <b>0</b>                    | <b>0</b>            | <b>0</b>            |
| <b>TOTAL FUNDS</b>                              | <b>0</b>    | <b>0</b>                 | <b>0</b>                    | <b>1,263</b>                | <b>1,479</b>        | <b>2,742</b>        |

**APPENDIX B**

**PROJECTED RESOURCE ALLOCATION PLAN – COUNTY**

**Los Angeles Community Development Bank**  
**Projected Resource Allocation Plan**  
**County of Los Angeles**  
(Amounts in Thousands)

| <b>Empowerment Zone Funds</b>  | <b>1996</b> | <b>1997</b> | <b>1998</b>  | <b>1999</b>  | <b>2000</b>  | <b>2001</b>  | <b>2002</b>  | <b>2003</b>  | <b>2004</b> | <b>Total</b>  |
|--------------------------------|-------------|-------------|--------------|--------------|--------------|--------------|--------------|--------------|-------------|---------------|
| <b>Program</b>                 |             |             |              |              |              |              |              |              |             |               |
| Microloan (Indirect)           | 0           | 0           | 46           | 152          | 320          | 370          | 370          | 370          | 300         | 1,928         |
| Business Loan                  | 231         | 671         | 1,450        | 1,385        | 465          | 2,100        | 378          | 125          | 75          | 6,880         |
| Business Loan (Indirect)       | 0           | 0           | 0            | 689          | 2,706        | 2,871        | 2,042        | 50           | 50          | 8,408         |
| Commercial Real Estate Loan    | 0           | 0           | 0            | 125          | 1,325        | 1,975        | 388          | 75           | 75          | 3,963         |
| Venture Capital (Indirect) 108 | 0           | 0           | 0            | 0            | 818          | 818          | 511          | 50           | 50          | 2,246         |
| Venture Capital (Indirect) EDI | 0           | 0           | 0            | 851          | 720          | 948          | 675          | 25           | 36          | 3,254         |
| Business/Technical Assistance  | 0           | 0           | 0            | 230          | 288          | 288          | 288          | 230          | 18          | 1,341         |
| CDO Equity                     | 0           | 0           | 0            | 345          | 575          | 575          | 345          | 115          | 26          | 1,981         |
| <b>Total Zone Funds</b>        | <b>231</b>  | <b>671</b>  | <b>1,496</b> | <b>3,777</b> | <b>7,216</b> | <b>9,944</b> | <b>4,995</b> | <b>1,040</b> | <b>630</b>  | <b>30,000</b> |

**Los Angeles Community Development Bank  
 Projected Resource Allocation Plan  
 County of Los Angeles  
 (Amounts in Thousands)**

**Summary**

| <b>Empowerment Zone Funds Program</b> | <b>Loans</b>  | <b>Loan Loss Reserves</b> | <b>Debt Service Reserves</b> | <b>Intermediary Program Expense</b> | <b>Administrative Expenses</b> | <b>Total Allocation</b> |
|---------------------------------------|---------------|---------------------------|------------------------------|-------------------------------------|--------------------------------|-------------------------|
| Microloan (Indirect)                  | 1,090         | 0                         | 0                            | 223                                 | 615                            | 1,928                   |
| Business Loan                         | 4,350         | 430                       | 408                          | 0                                   | 1,692                          | 6,880                   |
| Business Loan (Indirect)              | 6,500         | 400                       | 400                          | 133                                 | 975                            | 8,408                   |
| Commercial Real Estate Loan           | 2,850         | 143                       | 285                          | 0                                   | 685                            | 3,963                   |
| Venture Capital (Indirect) 108        | 1,300         | 390                       | 130                          | 137                                 | 289                            | 2,246                   |
| Venture Capital (Indirect) EDI        | 2,500         | 0                         | 0                            | 359                                 | 396                            | 3,254                   |
| Business/Technical Assistance         | 0             | 0                         | 0                            | 1,165                               | 176                            | 1,341                   |
| CDO Equity                            | 0             | 0                         | 0                            | 1,723                               | 258                            | 1,981                   |
| <b>Total Zone Funds</b>               | <b>18,590</b> | <b>1,363</b>              | <b>1,223</b>                 | <b>3,739</b>                        | <b>5,086</b>                   | <b>30,000</b>           |

| <b>County</b>    |               |
|------------------|---------------|
| Total EDI        | 15,000        |
| <b>Total 108</b> | <b>15,000</b> |
| Total            | 30,000        |

**Los Angeles Community Development Bank  
 Projected Resource Allocation Plan  
 County of Los Angeles  
 (Amounts in Thousands)**

| <b>Empowerment Zone Funds</b>  | <b>1996</b>  |                           |                              |                                     |                                |  | <b>Total Allocation</b> |
|--------------------------------|--------------|---------------------------|------------------------------|-------------------------------------|--------------------------------|--|-------------------------|
|                                | <b>Loans</b> | <b>Loan Loss Reserves</b> | <b>Debt Service Reserves</b> | <b>Intermediary Program Expense</b> | <b>Administrative Expenses</b> |  |                         |
| <b>Program</b>                 |              |                           |                              |                                     |                                |  |                         |
| Microloan (Indirect)           | 0            |                           |                              |                                     |                                |  | 0                       |
| Business Loan                  | 0            | 0                         | 0                            | 0                                   | 231                            |  | 231                     |
| Business Loan (Indirect)       | 0            |                           |                              |                                     |                                |  | 0                       |
| Commercial Real Estate Loan    | 0            |                           |                              |                                     |                                |  | 0                       |
| Venture Capital (Indirect) 108 |              |                           |                              |                                     |                                |  |                         |
| Venture Capital (Indirect) EDI | 0            |                           |                              |                                     |                                |  | 0                       |
| Business/Technical Assistance  | 0            |                           |                              |                                     |                                |  | 0                       |
| CDO Equity                     | 0            |                           |                              |                                     |                                |  | 0                       |
| <b>Total Zone Funds</b>        | <b>0</b>     | <b>0</b>                  | <b>0</b>                     | <b>0</b>                            | <b>231</b>                     |  | <b>231</b>              |

**Los Angeles Community Development Bank**  
**Projected Resource Allocation Plan**  
**County of Los Angeles**  
(Amounts in Thousands)

| <b>Empowerment Zone Funds</b>  | <b>1997</b>  |                           |                              |                                     |                                |            | <b>Total Allocation</b> |
|--------------------------------|--------------|---------------------------|------------------------------|-------------------------------------|--------------------------------|------------|-------------------------|
|                                | <b>Loans</b> | <b>Loan Loss Reserves</b> | <b>Debt Service Reserves</b> | <b>Intermediary Program Expense</b> | <b>Administrative Expenses</b> |            |                         |
| <b>Program</b>                 |              |                           |                              |                                     |                                |            |                         |
| Microloan (Indirect)           | 0            | 0                         | 0                            | 0                                   | 0                              | 0          | 0                       |
| Business Loan                  | 250          | 25                        | 25                           | 0                                   | 371                            | 671        | 671                     |
| Business Loan (Indirect)       | 0            | 0                         | 0                            | 0                                   | 0                              | 0          | 0                       |
| Commercial Real Estate Loan    | 0            | 0                         | 0                            | 0                                   | 0                              | 0          | 0                       |
| Venture Capital (Indirect) 108 | 0            | 0                         | 0                            | 0                                   | 0                              | 0          | 0                       |
| Venture Capital (Indirect) EDI | 0            | 0                         | 0                            | 0                                   | 0                              | 0          | 0                       |
| Business/Technical Assistance  | 0            |                           |                              | 0                                   | 0                              | 0          | 0                       |
| CDO Equity                     | 0            |                           |                              | 0                                   | 0                              | 0          | 0                       |
| <b>Total Zone Funds</b>        | <b>250</b>   | <b>25</b>                 | <b>25</b>                    | <b>0</b>                            | <b>371</b>                     | <b>671</b> | <b>671</b>              |

**Los Angeles Community Development Bank  
 Projected Resource Allocation Plan  
 County of Los Angeles  
 (Amounts in Thousands)**

| <b>Empowerment Zone Funds<br/>Program</b> | <b>1998</b>  |                               |                                      |   |                                    |              | <b>Total<br/>Allocation</b> |
|---|--------------|-------------------------------|--------------------------------------|---|------------------------------------|--------------|-----------------------------|
|   | <b>Loans</b> | <b>Loan Loss<br/>Reserves</b> | <b>Debt<br/>Service<br/>Reserves</b> | <b>Intermediary<br/>Program<br/>Expense</b> | <b>Administrative<br/>Expenses</b> |              |                             |
| Microloan (Indirect)                      | 15           | 0                             | 0                                    | 4   | 27                                 | 46           |                             |
| Business Loan                             | 1,000        | 100                           | 100                                  | 0   | 250                                | 1,450        |                             |
| Business Loan (Indirect)                  |              | 0                             | 0                                    | 0   |                                    | 0            |                             |
| Commercial Real Estate Loan               |              | 0                             | 0                                    | 0   |                                    | 0            |                             |
| Venture Capital (Indirect) 108            |              |                               |                                      |   |                                    | 0            |                             |
| Venture Capital (Indirect) EDI            |              | 0                             | 0                                    | 0   |                                    | 0            |                             |
| Business/Technical Assistance             |              |                               |                                      | 0   |                                    | 0            |                             |
| CDO Equity                                |              |                               |                                      |   | 0                                  | 0            |                             |
| <b>Total Zone Funds</b>                   | <b>1,015</b> | <b>100</b>                    | <b>100</b>                           | <b>4</b>                                    | <b>277</b>                         | <b>1,496</b> |                             |

**Los Angeles Community Development Bank  
 Projected Resource Allocation Plan  
 County of Los Angeles  
 (Amounts in Thousands)**

| <b>Empowerment Zone Funds<br/>Program</b> | <b>1999</b>  |                                   |                                      |   |                                    |                             |
|---|--------------|-----------------------------------|--------------------------------------|---|------------------------------------|-----------------------------|
|   | <b>Loans</b> | <b>Loan<br/>Loss<br/>Reserves</b> | <b>Debt<br/>Service<br/>Reserves</b> | <b>Intermediary<br/>Program<br/>Expense</b> | <b>Administrative<br/>Expenses</b> | <b>Total<br/>Allocation</b> |
| Microloan (Indirect)                      | 75           | 0                                 | 0                                    | 19  | 58                                 | 152                         |
| Business Loan                             | 1,000        | 100                               | 100                                  | 0   | 185                                | 1,385                       |
| Business Loan (Indirect)                  | 500          | 50                                | 50                                   | 14  | 75                                 | 689                         |
| Commercial Real Estate Loan               | 100          | 5                                 | 10                                   | 0   | 10                                 | 125                         |
| Venture Capital (Indirect) 108            |              | 0                                 | 0                                    | 0   | 0                                  | 0                           |
| Venture Capital (Indirect) EDI            | 750          | 0                                 | 0                                    | 79  | 23                                 | 851                         |
| Business/Technical Assistance             |              |                                   |                                      | 200   | 30                                 | 230                         |
| CDO Equity                                | 300          |                                   |                                      |   | 45                                 | 345                         |
| <b>Total Zone Funds</b>                   | <b>2,725</b> | <b>155</b>                        | <b>160</b>                           | <b>312</b>                                  | <b>426</b>                         | <b>3,777</b>                |

**Los Angeles Community Development Bank  
 Projected Resource Allocation Plan  
 County of Los Angeles  
 (Amounts in Thousands)**

| <b>Empowerment Zone Funds</b>  | <b>2000</b>  |                                   |                                      |   |                                    |              | <b>Total<br/>Allocation</b> |
|--------------------------------|--------------|-----------------------------------|--------------------------------------|---|------------------------------------|--------------|-----------------------------|
|                                | <b>Loans</b> | <b>Loan<br/>Loss<br/>Reserves</b> | <b>Debt<br/>Service<br/>Reserves</b> | <b>Intermediary<br/>Program<br/>Expense</b> | <b>Administrative<br/>Expenses</b> |              |                             |
| <b>Program</b>                 |              |                                   |                                      |   |                                    |              |                             |
| Microloan (Indirect)           | 200          | 0                                 | 0                                    | 50  | 70                                 | 320          |                             |
| Business Loan                  | 300          | 30                                | 30                                   | 0   | 105                                | 465          |                             |
| Business Loan (Indirect)       | 2,000        | 200                               | 200                                  | 56  | 250                                | 2,706        |                             |
| Commercial Real Estate Loan    | 1,000        | 50                                | 100                                  | 0   | 175                                | 1,325        |                             |
| Venture Capital (Indirect) 108 | 500          | 150                               | 50                                   | 53  | 65                                 | 818          |                             |
| Venture Capital (Indirect) EDI | 500          | 0                                 | 0                                    | 155   | 65                                 | 720          |                             |
| Business/Technical Assistance  | 0            |                                   |                                      | 250   | 38                                 | 288          |                             |
| CDO Equity                     | 500          |                                   |                                      |   | 75                                 | 575          |                             |
| <b>Total Zone Funds</b>        | <b>5,000</b> | <b>430</b>                        | <b>380</b>                           | <b>564</b>                                  | <b>843</b>                         | <b>7,216</b> |                             |

**Los Angeles Community Development Bank**  
**Projected Resource Allocation Plan**  
**County of Los Angeles**  
(Amounts in Thousands)

| <u>Empowerment Zone Funds</u><br><u>Program</u> | <u>2001</u>  |                          |                             |                                    |                            |              | Total<br>Allocation |
|---|--------------|--------------------------|-----------------------------|------------------------------------|----------------------------|--------------|---------------------|
|   | Loans        | Loan<br>Loss<br>Reserves | Debt<br>Service<br>Reserves | Intermediary<br>Program<br>Expense | Administrative<br>Expenses |              |                     |
| Microloan (Indirect)                            | 200          | 0                        | 0                           | 50                                 | 120                        | 370          |                     |
| Business Loan                                   | 1,500        | 150                      | 150                         |                                    | 300                        | 2,100        |                     |
| Business Loan (Indirect)                        | 2,500        | 0                        | 0                           | 21                                 | 350                        | 2,871        |                     |
| Commercial Real Estate Loan                     | 1,500        | 75                       | 150                         | 0                                  | 250                        | 1,975        |                     |
| Venture Capital (Indirect) 108                  | 500          | 150                      | 50                          | 53                                 | 65                         | 818          |                     |
| Venture Capital (Indirect) EDI                  | 750          | 0                        | 0                           | 75                                 | 123                        | 948          |                     |
| Business/Technical Assistance                   | 0            |                          |                             | 250                                | 38                         | 288          |                     |
| CDO Equity                                      | 500          |                          |                             |                                    | 75                         | 575          |                     |
| <b>Total Zone Funds</b>                         | <b>7,450</b> | <b>375</b>               | <b>200</b>                  | <b>449</b>                         | <b>1,320</b>               | <b>9,944</b> |                     |

**Los Angeles Community Development Bank**  
**Projected Resource Allocation Plan**  
**County of Los Angeles**  
(Amounts in Thousands)

| <b>Empowerment Zone Funds</b>  | <b>2002</b>  |                           |                              |                                     |                                |  | <b>Total Allocation</b> |
|--------------------------------|--------------|---------------------------|------------------------------|-------------------------------------|--------------------------------|--|-------------------------|
|                                | <b>Loans</b> | <b>Loan Loss Reserves</b> | <b>Debt Service Reserves</b> | <b>Intermediary Program Expense</b> | <b>Administrative Expenses</b> |  |                         |
| <b>Program</b>                 |              |                           |                              |                                     |                                |  |                         |
| Microloan (Indirect)           | 200          | 0                         | 0                            | 50                                  | 120                            |  | <b>370</b>              |
| Business Loan                  | 250          | 25                        | 3                            | 0                                   | 100                            |  | <b>378</b>              |
| Business Loan (Indirect)       | 1,500        | 150                       | 150                          | 42                                  | 200                            |  | <b>2,042</b>            |
| Commercial Real Estate Loan    | 250          | 13                        | 25                           | 0                                   | 100                            |  | <b>388</b>              |
| Venture Capital (Indirect) 108 | 300          | 90                        | 30                           | 32                                  | 59                             |  | <b>511</b>              |
| Venture Capital (Indirect) EDI | 500          | 0                         | 0                            | 50                                  | 125                            |  | <b>675</b>              |
| Business/Technical Assistance  | 0            |                           |                              | 250                                 | 38                             |  | <b>288</b>              |
| CDO Equity                     | 300          |                           |                              |                                     | 45                             |  | <b>345</b>              |
| <b>Total Zone Funds</b>        | <b>3,300</b> | <b>278</b>                | <b>208</b>                   | <b>424</b>                          | <b>787</b>                     |  | <b>4,995</b>            |

**Los Angeles Community Development Bank  
 Projected Resource Allocation Plan  
 County of Los Angeles  
 (Amounts in Thousands)**

| <b>Empowerment Zone Funds<br/>Program</b> | <b>2003</b>  |                                   |                                      |   |                                    |              | <b>Total<br/>Allocation</b> |
|---|--------------|-----------------------------------|--------------------------------------|---|------------------------------------|--------------|-----------------------------|
|   | <b>Loans</b> | <b>Loan<br/>Loss<br/>Reserves</b> | <b>Debt<br/>Service<br/>Reserves</b> | <b>Intermediary<br/>Program<br/>Expense</b> | <b>Administrative<br/>Expenses</b> |              |                             |
| Microloan (Indirect)                      | 200          | 0                                 | 0                                    | 50  | 120                                | <b>370</b>   |                             |
| Business Loan                             | 50           | 0                                 | 0                                    | 0   | 75                                 | <b>125</b>   |                             |
| Business Loan (Indirect)                  | 0            | 0                                 | 0                                    | 0   | 50                                 | <b>50</b>    |                             |
| Commercial Real Estate Loan               | 0            | 0                                 | 0                                    | 0   | 75                                 | <b>75</b>    |                             |
| Venture Capital (Indirect) 108            | 0            | 0                                 | 0                                    | 0   | 50                                 | <b>50</b>    |                             |
| Venture Capital (Indirect) EDI            | 0            | 0                                 | 0                                    |   | 25                                 | <b>25</b>    |                             |
| Business/Technical Assistance             | 0            | 0                                 |                                      | 200   | 30                                 | <b>230</b>   |                             |
| CDO Equity                                | 100          | 0                                 |                                      |   | 15                                 | <b>115</b>   |                             |
| <b>Total Zone Funds</b>                   | <b>350</b>   | <b>0</b>                          | <b>0</b>                             | <b>200</b>                                  | <b>440</b>                         | <b>1,040</b> |                             |

**Los Angeles Community Development Bank**  
**Projected Resource Allocation Plan**  
**County of Los Angeles**  
(Amounts in Thousands)

| <b>Empowerment Zone Funds</b>  | <b>2004</b>  |                           |                              |                                     |                                |  | <b>Total Allocation</b> |
|--------------------------------|--------------|---------------------------|------------------------------|-------------------------------------|--------------------------------|--|-------------------------|
|                                | <b>Loans</b> | <b>Loan Loss Reserves</b> | <b>Debt Service Reserves</b> | <b>Intermediary Program Expense</b> | <b>Administrative Expenses</b> |  |                         |
| <b>Program</b>                 |              |                           |                              |                                     |                                |  |                         |
| Microloan (Indirect)           | 200          | 0                         | 0                            | 0                                   | 100                            |  | <b>300</b>              |
| Business Loan                  | 0            | 0                         | 0                            | 0                                   | 75                             |  | <b>75</b>               |
| Business Loan (Indirect)       | 0            | 0                         | 0                            | 0                                   | 50                             |  | <b>50</b>               |
| Commercial Real Estate Loan    | 0            | 0                         | 0                            | 0                                   | 75                             |  | <b>75</b>               |
| Venture Capital (Indirect) 108 | 0            | 0                         | 0                            | 0                                   | 50                             |  | <b>50</b>               |
| Venture Capital (Indirect) EDI | 0            | 0                         | 0                            |                                     | 36                             |  | <b>36</b>               |
| Business/Technical Assistance  | 0            |                           |                              | 15                                  | 3                              |  | <b>18</b>               |
| CDO Equity                     | 23           |                           |                              |                                     | 3                              |  | <b>26</b>               |
| <b>Total Zone Funds</b>        | <b>0</b>     | <b>0</b>                  | <b>0</b>                     | <b>15</b>                           | <b>392</b>                     |  | <b>630</b>              |

**APPENDIX C**

**1997 AUDIT**



**LOS ANGELES COMMUNITY DEVELOPMENT BANK  
(NOT A COMMERCIAL BANK) AND SUBSIDIARY  
(A California Nonprofit Corporation)**

Consolidated Financial Statements and Schedules

December 31, 1997 and 1996

(With Independent Auditors' Report Thereon)

**LOS ANGELES COMMUNITY DEVELOPMENT BANK**  
**(NOT A COMMERCIAL BANK) AND SUBSIDIARY**  
(A California Nonprofit Corporation)

Table of Contents

|  | <u>Page</u> |
|--|-------------|
| <b>Consolidated Financial Statements:</b>                          |             |
| Independent Auditors' Report                                       | 1           |
| Consolidated Statements of Financial Position                      | 2           |
| Consolidated Statements of Activity                                | 4           |
| Consolidated Statements of Cash Flows                              | 6           |
| Notes to Consolidated Financial Statements                         | 8           |
| <b>Supplementary Information:</b>                                  |             |
| <b>Combining Schedules – All Grant Programs:</b>                   |             |
| Combining Schedule of Financial Position                           | 18          |
| Combining Schedule of Activity                                     | 19          |
| Combining Schedule of Cash Flows                                   | 20          |
| <b>Combining Schedules – City of Los Angeles Grant Programs:</b>   |             |
| Combining Schedule of Financial Position                           | 21          |
| Combining Schedule of Activity                                     | 22          |
| Combining Schedule of Cash Flows                                   | 23          |
| <b>Combining Schedules – County of Los Angeles Grant Programs:</b> |             |
| Combining Schedule of Financial Position                           | 24          |
| Combining Schedule of Activity                                     | 25          |
| Combining Schedule of Cash Flows                                   | 26          |

**INDEPENDENT AUDITORS' REPORT**

The Board of Directors  
Los Angeles Community Development Bank  
(Not a Commercial Bank):

We have audited the consolidated financial statements of the Los Angeles Community Development Bank (Not a Commercial Bank) and subsidiary (a California nonprofit corporation) (hereinafter LACDB) as of and for the year ended December 31, 1997 and period from LACDB's inception (June 1, 1995) to December 31, 1996, as listed in the accompanying table of contents. These consolidated financial statements are the responsibility of LACDB's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of LACDB as of December 31, 1997 and 1996 and the changes in its net assets and its cash flows for the year ended December 31, 1997 and the period from inception (June 1, 1995) to December 31, 1996 in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated April 7, 1998 on our consideration of LACDB's internal control over financial reporting and our tests of its compliance with laws, regulations, contracts and grants.

Our audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The combining schedules of financial position, activity and cash flows listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the consolidated financial statements of LACDB. Such information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

*KPMG Peat Marwick LLP*

April 7, 1998



**LOS ANGELES COMMUNITY DEVELOPMENT BANK**  
**(NOT A COMMERCIAL BANK) AND SUBSIDIARY**  
(A California Nonprofit Corporation)

Consolidated Statements of Financial Position

December 31, 1997 and 1996

| Assets  | <u>1997</u>          | <u>1996</u>      |
|---|----------------------|------------------|
| Cash and cash equivalents (note 2):   |                      |                  |
| Unreserved  | \$ 12,954,244        | 2,135,724        |
| Debt service reserve – Section 108 Loan fund  | 2,760,848            | 499,692          |
| Loan loss reserve fund  | <u>1,845,122</u>     | <u>247,738</u>   |
| Total cash and cash equivalents   | <u>17,560,214</u>    | <u>2,883,154</u> |
| Grants receivable (note 3):   |                      |                  |
| City of Los Angeles   | 3,728,131            | 218,761          |
| County of Los Angeles   | <u>597,226</u>       | <u>232,725</u>   |
| Total grants receivable   | <u>4,325,357</u>     | <u>451,486</u>   |
| Loans receivable (note 4)   | 18,313,825           | 2,450,000        |
| Less:   |                      |                  |
| Allowance for loan losses   | (4,681,531)          | (717,500)        |
| Deferred loan fees  | <u>(214,584)</u>     | <u>(31,005)</u>  |
| Total loans receivable, net   | <u>13,417,710</u>    | <u>1,701,495</u> |
| Accrued interest receivable   | 345,106              | 24,402           |
| Other receivables   | 1,375                | —                |
| Prepaid expenses  | 42,980               | 16,037           |
| Security deposits   | 5,961                | 2,500            |
| Deferred U.S. Department of Housing and Urban Development<br>Section 108 Government Guaranteed Participation Certificates<br>issuance costs, net of accumulated amortization of \$1,278 at<br>December 31, 1997 | 152,107              | —                |
| Property and equipment, net of accumulated depreciation of<br>\$82,943 and \$5,119 at December 31, 1997 and 1996,<br>respectively (note 5)  | <u>305,113</u>       | <u>143,151</u>   |
| Total assets  | <u>\$ 36,155,923</u> | <u>5,222,225</u> |

(Continued)

**LOS ANGELES COMMUNITY DEVELOPMENT BANK**  
**(NOT A COMMERCIAL BANK) AND SUBSIDIARY**  
(A California Nonprofit Corporation)

Consolidated Statements of Financial Position, Continued

| <b>Liabilities and Net Assets</b>   | <u>1997</u>          | <u>1996</u>      |
|---|----------------------|------------------|
| Accounts payable and accrued expenses   | \$ 360,079           | 30,648           |
| Interest payable  | 354,037              | 48,426           |
| Deferred revenue  | 4,600,739            | —                |
| Interim financing loan, guaranteed under Section 108 of the Housing<br>and Community Development Act of 1974 (note 6)     | 250,000              | 5,000,000        |
| U.S. Department of Housing and Urban Development Section 108<br>Government Guaranteed Participation Certificates (note 6) | <u>30,000,000</u>    | <u>—</u>         |
| Total liabilities   | <u>35,564,855</u>    | <u>5,079,074</u> |
| Net assets (note 7):  |                      |                  |
| Temporarily restricted  | 285,955              | —                |
| Unrestricted  | <u>305,113</u>       | <u>143,151</u>   |
| Total net assets  | <u>591,068</u>       | <u>143,151</u>   |
| Total liabilities and net assets  | <u>\$ 36,155,923</u> | <u>5,222,225</u> |

See accompanying notes to consolidated financial statements.

**LOS ANGELES COMMUNITY DEVELOPMENT BANK**  
**(NOT A COMMERCIAL BANK) AND SUBSIDIARY**  
(A California Nonprofit Corporation)

Consolidated Statements of Activity

Year ended December 31, 1997 and  
period from inception (June 1, 1995) to December 31, 1996

|  | 1997         | 1996      |
|--|--------------|-----------|
| Unrestricted:  |              |           |
| Public support and revenue and net assets released from restriction:           |              |           |
| Public support:  |              |           |
| Grants (note 3):   |              |           |
| City of Los Angeles  | \$ 6,244,008 | 2,297,361 |
| County of Los Angeles  | 370,952      | 232,725   |
| Contributed services   | 3,459        | 1,309,098 |
| Total public support   | 6,618,419    | 3,839,184 |
| Revenue:   |              |           |
| Interest:  |              |           |
| Loans (note 4)   | 824,587      | 33,230    |
| Cash and cash equivalents  | 295,148      | 124,589   |
| Total revenue  | 1,119,735    | 157,819   |
| Net assets released from restriction   | 45,125       | —         |
| Total public support, revenue and net assets released from restriction         | 7,783,279    | 3,997,003 |
| Expenses:  |              |           |
| Program services:  |              |           |
| Interest expense (note 6)  | 933,577      | 173,941   |
| Allowance for loan losses (note 4)   | 3,964,032    | 717,500   |
| Other program services   | 2,196,662    | 310,832   |
| Total program services   | 7,094,271    | 1,202,273 |
| Supporting services:   |              |           |
| Formation costs, including contributed formation costs of \$1,309,098 (note 8) | —            | 2,623,526 |
| General and administrative services  | 520,966      | 28,053    |
| Total supporting services  | 520,966      | 2,651,579 |
| Total expenses   | 7,615,237    | 3,853,852 |
| Change in unrestricted net assets  | 168,042      | 143,151   |

(Continued)

**LOS ANGELES COMMUNITY DEVELOPMENT BANK  
(NOT A COMMERCIAL BANK) AND SUBSIDIARY  
(A California Nonprofit Corporation)**

Consolidated Statements of Activity, Continued

|  | <u>1997</u>       | <u>1996</u>    |
|--|-------------------|----------------|
| Temporarily restricted:  |                   |                |
| Public support and net assets released from restriction:         |                   |                |
| Public support – contributions                                   | \$ 325,000        | —              |
| Net assets released from restriction                             | <u>(45,125)</u>   | <u>—</u>       |
| Total public support and net assets released from<br>restriction | <u>279,875</u>    | <u>—</u>       |
| Change in temporarily restricted net assets                      | <u>279,875</u>    | <u>—</u>       |
| Total change in net assets                                       | 447,917           | 143,151        |
| <br>   |                   |                |
| Net assets, beginning of period                                  | <u>143,151</u>    | <u>—</u>       |
| Net assets, end of period (note 7)                               | <u>\$ 591,068</u> | <u>143,151</u> |

See accompanying notes to consolidated financial statements.

**LOS ANGELES COMMUNITY DEVELOPMENT BANK**  
**(NOT A COMMERCIAL BANK) AND SUBSIDIARY**  
(A California Nonprofit Corporation)

Consolidated Statements of Cash Flows

Year ended December 31, 1997 and  
period from inception (June 1, 1995) to December 31, 1996

|   | <u>1997</u>          | <u>1996</u>        |
|---|----------------------|--------------------|
| Cash flows from operating activities:   |                      |                    |
| Grant revenues received   | \$ 7,335,377         | 2,078,600          |
| Loan interest and fees received   | 686,087              | 39,833             |
| Interest on cash and cash equivalents received  | 295,147              | 124,589            |
| Contributions received  | 325,000              | —                  |
| Interest paid on interim financing loan   | (391,903)            | (125,515)          |
| Payments to employees and others  | (1,684,116)          | (800,021)          |
| Payments to vendors and others  | <u>(646,751)</u>     | <u>(836,062)</u>   |
| Net cash provided by operating activities   | <u>5,918,841</u>     | <u>481,424</u>     |
| Cash flows from investing activities:   |                      |                    |
| Purchases of property and equipment   | (239,786)            | (148,270)          |
| Loans originated  | (16,700,014)         | (2,450,000)        |
| Loan principal payments received  | <u>836,189</u>       | <u>—</u>           |
| Net cash used in investing activities   | <u>(16,103,611)</u>  | <u>(2,598,270)</u> |
| Cash flows from financing activities:   |                      |                    |
| Proceeds from interim loan from bank  | 13,250,000           | 5,000,000          |
| Proceeds from U.S. Department of Housing and Urban<br>Development Section 108 Government Guaranteed<br>Participation Certificates | <u>11,611,830</u>    | <u>—</u>           |
| Net cash provided by financing activities   | <u>24,861,830</u>    | <u>5,000,000</u>   |
| Net increase in cash and cash equivalents   | 14,677,060           | 2,883,154          |
| Cash and cash equivalents, beginning of period  | <u>2,883,154</u>     | <u>—</u>           |
| Cash and cash equivalents, end of period  | <u>\$ 17,560,214</u> | <u>2,883,154</u>   |

(Continued)

**LOS ANGELES COMMUNITY DEVELOPMENT BANK  
(NOT A COMMERCIAL BANK) AND SUBSIDIARY  
(A California Nonprofit Corporation)**

Consolidated Statements of Cash Flows, Continued

|   | <u>1997</u>         | <u>1996</u>    |
|---|---------------------|----------------|
| Reconciliation of change in net assets to net cash provided by operating activities:  |                     |                |
| Change in net assets  | \$ 447,917          | 143,151        |
| Adjustments to reconcile change in net assets to net cash provided by operating activities:   |                     |                |
| Depreciation  | 77,823              | 5,119          |
| Provision for loan losses   | 3,964,032           | 717,500        |
| Amortization of net loan fees   | (30,800)            | (3,855)        |
| Amortization of deferred U.S. Department of Housing and Urban Development Section 108 Government Guaranteed Participation Certificates issuance costs | 1,278               | —              |
| Change in operating assets and liabilities:   |                     |                |
| Increase in receivables:  |                     |                |
| Grants  | (3,873,871)         | (451,486)      |
| Interest  | (320,704)           | (24,402)       |
| Other receivables   | (1,375)             | —              |
| Increase in deferred loan fees  | 214,378             | 34,860         |
| Increase in prepaid expenses and other current assets   | (30,403)            | (18,537)       |
| Increase in accounts payable and accrued expenses   | 329,431             | 30,648         |
| Increase in interest payable  | 540,396             | 48,426         |
| Increase in deferred revenue  | 4,600,739           | —              |
| Total adjustments   | <u>5,470,924</u>    | <u>338,273</u> |
| Net cash provided by operating activities   | <u>\$ 5,918,841</u> | <u>481,424</u> |

Significant noncash investing and financing activity:

On October 28, 1997, the City of Los Angeles participated on behalf of the Los Angeles Community Development Bank (LACDB) in \$30,000,000 of \$283,320,000 U.S. Department of Housing and Urban Development Section 108 Government Guaranteed Participation Certificates, Series HUD 1997-A (Section 108 Certificates). LACDB issued a note payable to the City with like payment terms and conditions for the underlying Section 108 Certificates. From the proceeds of the Section 108 Certificates, the trustee paid on behalf of the City and LACDB \$153,385 of issuance costs, and the outstanding principal balance and accrued interest of the interim financing loan of \$18,000,000 and \$234,785, respectively.

See accompanying notes to consolidated financial statements.

**LOS ANGELES COMMUNITY DEVELOPMENT BANK  
(NOT A COMMERCIAL BANK) AND SUBSIDIARY  
(A California Nonprofit Corporation)**

Notes to Consolidated Financial Statements

December 31, 1997 and 1996

**(1) General and Summary of Significant Accounting Policies**

**General**

Los Angeles Community Development Bank (Not a Commercial Bank) (a California nonprofit corporation) (hereinafter LACDB) was formed on June 1, 1995 for the purpose of providing economic development loans, guarantees and other forms of credit, credit enhancement and capital to certain businesses or community development enterprises within the greater Los Angeles area. The City of Los Angeles (City) and the County of Los Angeles (County) have been awarded certain Economic Development Initiative (EDI) grants and commitments of loan guarantee assistance in accordance with Section 108 of the Housing and Community Development Act of 1974 (Section 108 Loan Guarantees) for use within the Federal Urban Empowerment Zone (Supplemental Empowerment Zone) as identified by the City and County in their application for Federal Urban Empowerment Zone designation. In addition, the City has been awarded certain Community Development Block Grants (CDBG) for use outside the Supplemental Empowerment Zone. Accordingly, the City, County and LACDB entered into a subgrantee agreement (hereinafter Comprehensive CDB Agreement) in October 1995 to pass through certain portions of these grants and Section 108 Loan Guarantees to LACDB. The primary goals of LACDB, the City and the County is economic development within the Supplemental Empowerment Zone by promoting a positive investment environment and creating sustainable jobs for Supplemental Empowerment Zone residents. Except for contributed professional services received in 1995 and 1996 (see note 8), operations commenced on January 2, 1996.

In June 1997, LACDB formed the LACDB Community Investment LLC, A California Limited Liability Company. This company was formed for the purpose of providing program delivery and administrative services related to loans, venture capital and technical assistance to borrowers under loan programs of LACDB. The Company was also formed to promote a positive investment environment and sustainable jobs for residents and others in the Supplemental Empowerment Zone, as well as throughout the low- and moderate-income census tracts in the City of Los Angeles.

**About Los Angeles Community Development Bank**

LACDB is a California nonprofit public benefit corporation governed by a 15-member Board of Directors. Such Board may be increased by up to four additional members in an Event of Default (as described in the Comprehensive CDB Agreement). The LACDB Board of Directors is comprised of seven public members and eight private members, and includes bankers, professionals, entrepreneurs and community leaders. The seven public members include six members appointed by the Mayor of the City of Los Angeles and confirmed by the City Council and one member appointed by the Board of Supervisors of the County of Los Angeles. The LACDB's initial directors selected four of the private members and a consortium of local university presidents selected the other four private members. The term of the directors is four years, except that seven of the fifteen initial members of the Board have two-year terms. Five of the fifteen directors must be Empowerment Zone residents.

In the event of dissolution of LACDB, any net assets are to be distributed to the City and County in accordance with the Comprehensive CDB Agreement.

**LOS ANGELES COMMUNITY DEVELOPMENT BANK**  
**(NOT A COMMERCIAL BANK) AND SUBSIDIARY**  
(A California Nonprofit Corporation)

Notes to Consolidated Financial Statements, Continued

**Summary of Significant Accounting Policies**

**Basis of Presentation**

The financial statements of LACDB have been prepared using the accrual basis of accounting.

**Cash and Cash Equivalents**

Cash and cash equivalents consist primarily of cash on deposit with banks and investments in funds consisting of U.S. Government and Government Agency securities with original maturities of three months or less.

**Grants**

The EDI and CDBG grants, as well as the underlying grants for the Section 108 Loan Guarantees, are expenditure-driven grants. The nature of such grants is that grant revenues are earned subject to qualifying grant expenditures. Further, program income, including repayments of loan principal and interest, loan fees and interest earned on invested grant funds, must be used for repayment of Section 108 loan principal and interest and other qualifying program expenditures prior to drawing grant funds. Accordingly, grant funds received in excess of qualifying grant expenditures are deferred and must be used for program purposes or returned to the granting agency; program expenditures by LACDB which have not yet been reimbursed under the terms of the grant agreements are recorded as grant receivables.

**Loans Receivable**

LACDB provides several types of financing, including term loans, lines of credit, real estate loans, venture capital financing and micro loans. Loans receivable are recorded at cost, net of deferred loan fees and the allowance for loan losses. Loan origination fees are deferred and credited to income using the straight-line method over the contractual life of the loan. For loans placed on nonaccrual status (see Impaired Loans below), the amortization of net deferred loan fees is discontinued.

Loans are evaluated for impairment as part of LACDB's internal asset review process. All of LACDB's loans are subject to the review for impairment. A loan is impaired when, based on current information and events, a creditor will be unable to collect all amounts contractually due according to the terms of the loan agreement. When a loan is determined to be impaired, a valuation allowance is established based upon the difference between LACDB's investment in the loan and the fair value of the collateral securing the loan, as well as other factors.

Subsequent collection of cash may be applied as a reduction to the principal balance or recorded as income, depending upon management's assessment of the ultimate collectibility of the loan. Interest income on impaired loans is recognized only to the extent that cash payments are received.

**LOS ANGELES COMMUNITY DEVELOPMENT BANK**  
**(NOT A COMMERCIAL BANK) AND SUBSIDIARY**  
(A California Nonprofit Corporation)

Notes to Consolidated Financial Statements, Continued

**Allowance for Loan Losses**

In addition to specific valuation allowances on impaired loans, the allowance for loan losses includes general valuation allowances provided for estimated inherent losses in the loan portfolio which have not been specifically identified. Management believes that the allowance for loan losses is adequate. While management uses available information to estimate the allowance, future additions to the allowance may be necessary based on changes in economic conditions.

**Allowance for Delinquent Interest**

Accrued interest on loans that are contractually 90 days or more past due is reversed and charged against income. Income is subsequently recognized only to the extent cash payments are received and such loans are restored to an accrual status only if the borrower has demonstrated the ability to make future payments of principal and interest.

**Property and Equipment**

Property and equipment are recorded at cost. Property and equipment acquired with government grant funds are considered to be owned by LACDB while used in the program or in future authorized programs. However, the granting agency has a reversionary interest in the property as well as the right to determine the use of any proceeds from the sale of the assets. Management expects to have continuous use of such property and equipment throughout their useful lives.

Depreciation is computed on a straight-line basis over the estimated useful lives of the related assets ranging from five to ten years. Leasehold improvements are amortized over the term of the lease or estimated useful life, whichever is shorter.

**Contributed Services**

Contributed professional services and other services are recognized by LACDB if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation.

The fair value of such services totaled \$3,459 and \$1,309,098 for the year ended December 31, 1997 and period ended December 31, 1996 and are included in contributed services revenue in the accompanying consolidated financial statements. Contributed services in 1997 represents space provided by the City of Los Angeles Community Development Department for the Watts Satellite office, which is included in other program services in the accompanying consolidated financial statements. During its formation period, many of the necessary costs of establishing LACDB were contributed by a variety of professional services firms. Such services included legal and financial services used to establish the corporation and develop the Comprehensive CDB Agreement, providing assistance in establishing office sites and equipment, as well as recruiting personnel. Such costs have been estimated at \$1,309,098 based on invoices, descriptions of work performed, as well as estimates provided by the various donating firms, and are included in formation costs in the accompanying consolidated financial statements (see note 8).

**LOS ANGELES COMMUNITY DEVELOPMENT BANK**  
**(NOT A COMMERCIAL BANK) AND SUBSIDIARY**  
(A California Nonprofit Corporation)

Notes to Consolidated Financial Statements, Continued

**Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities at the date of the financial statements. Actual results may differ from those estimates.

**Risks Associated with Financial Instruments**

The credit risk of a financial instrument is the possibility that a loss may result from the failure of another party to perform in accordance with the terms of the contract. The most significant credit risk associated with LACDB's financial instruments is concentrated in its loan receivables. Concentrations of credit risk would exist for groups of borrowers when they have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The ability of LACDB's borrowers to repay their commitments is contingent on several factors, including economic conditions in the borrowers' geographic area and the individual financial condition of the borrower. All of LACDB's loan receivables are from companies that are located within the same general geographic area (the Supplemental Empowerment Zone) and that do not qualify for conventional commercial lending programs.

The market risk of a financial instrument is the possibility that future changes in market prices may reduce the value of a financial instrument or increase the contractual obligations of LACDB. LACDB's market risk is concentrated in its loan receivable portfolio. When a borrower fails to meet the contractual requirements of their loan agreement, LACDB is subject to the market risk of the collateral securing the loan.

Financial instruments are subject to interest rate risk to the extent that they reprice on a frequency, degree or basis that varies from market pricing. LACDB is subject to interest rate risk to the degree that its loans receivable reprice on a different frequency or schedule than its funding sources. At December 31, 1997, LACDB's primary sources of funding are from participation in the U.S. Department of Housing and Urban Development Section 108 Government Guaranteed Participation Certificates for City loans and borrowings under its interim financing loan for County loans (see note 6).

**Income Taxes**

LACDB is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code.

**(2) Cash and Cash Equivalents**

Cash and cash equivalents consist of bank deposits and investments in funds consisting of U.S. Treasury and U.S. Government Agency securities. These funds are held by collateral agents in accordance with the terms of a collateral agent agreement and are immediately available.

**LOS ANGELES COMMUNITY DEVELOPMENT BANK**  
**(NOT A COMMERCIAL BANK) AND SUBSIDIARY**  
(A California Nonprofit Corporation)

Notes to Consolidated Financial Statements, Continued

Included in the cash and cash equivalents balance is the balance of LACDB's debt service reserve account, aggregating \$2,760,848 and \$499,692 at December 31, 1997 and 1996, respectively. Under the terms of the Comprehensive CDB Agreement and the interim financing loan, LACDB is required to maintain an amount not less than the maximum annual debt service on the outstanding interim financing loan supported by the Section 108 Loan Guarantee. The balance in the debt service reserve account at December 31, 1997 and 1996 exceeds the required balance due to accumulated interest earned of \$63,709 and \$13,884, respectively. The City and County have agreed to allow LACDB to draw on EDI grant funds rather than on Section 108 Loan funds for such debt service reserve account.

Also included in cash and cash equivalents is the balance of LACDB's funded loan loss reserve account, aggregating \$1,845,122 and \$247,738 at December 31, 1997 and 1996, respectively. LACDB is required to maintain this cash reserve as additional security for both the City and County related to loans issued. The amount of the reserve is based on the type of loan. The City and County have agreed to allow LACDB to draw on EDI and CDBG grant funds rather than on Section 108 Loan funds for such loan loss reserve account. The balance in the loan loss reserve accounts at December 31, 1997 and 1996 exceeded the required balance due to accumulated interest earned of \$36,522 and \$2,738, respectively.

**(3) Grants Receivable/Deferred Grant Revenues**

Grant revenues in 1997 and 1996 consist entirely of EDI and CDBG grants from the City and County. Proceeds from the Section 108 Loan Guarantee were used to fund loans issued to date, debt service reserve funds and a portion of the loan loss reserve funds. The EDI and CDBG grants are intended to provide funding for LACDB operating costs and reserves not funded by loan program revenues, as well as provide for additional lending activities within the Empowerment Zone and the Supplemental Empowerment Zone.

In accordance with various agreements between the City, County and LACDB, EDI grant revenues are allocated 87% to the City and 13% to the County. A reconciliation of grant receivables (deferred grant revenue) for the period ended December 31, 1996 and the year ended December 31, 1997 is as follows:

|   | City             |          | County         |          | Total            |
|---|------------------|----------|----------------|----------|------------------|
|   | EDI              | CDBG     | EDI            | CDBG     |                  |
| Grant receivable, beginning of period (inception, June 1, 1995) | \$ —             | —        | —              | —        | —                |
| Grant funding received  | (2,078,600)      | —        | —              | —        | (2,078,600)      |
| Grant expenditures  | <u>2,297,361</u> | <u>—</u> | <u>232,725</u> | <u>—</u> | <u>2,530,086</u> |
| Grant receivable, December 31, 1996                             | <u>218,761</u>   | <u>—</u> | <u>232,725</u> | <u>—</u> | <u>451,486</u>   |

(Continued)

**LOS ANGELES COMMUNITY DEVELOPMENT BANK**  
**(NOT A COMMERCIAL BANK) AND SUBSIDIARY**  
(A California Nonprofit Corporation)

Notes to Consolidated Financial Statements, Continued

|   | <u>City</u>         |                | <u>County</u>  |              | <u>Total</u>     |
|---|---------------------|----------------|----------------|--------------|------------------|
|   | <u>EDI</u>          | <u>CDBG</u>    | <u>EDI</u>     | <u>CDBG</u>  |                  |
| Grant receivable,<br>December 31, 1996                                    | \$ 218,761          | —              | 232,725        | —            | 451,486          |
| Grant funding received  | (7,335,377)         | —              | —              | —            | (7,335,377)      |
| Grant expenditures  | 6,063,285           | 180,723        | 355,401        | 9,100        | 6,608,509        |
| Deferred grant revenue for<br>debt service and loan<br>loss reserve funds | <u>4,505,739</u>    | <u>95,000</u>  | <u>—</u>       | <u>—</u>     | <u>4,600,739</u> |
| Grant receivable,<br>December 31, 1997                                    | <u>\$ 3,452,408</u> | <u>275,723</u> | <u>588,126</u> | <u>9,100</u> | <u>4,325,357</u> |

**(4) Loans Receivable**

LACDB provides different types of financing in order to provide for economic development in the Supplemental Empowerment Zone. Such financing includes business term loans, business lines of credit, real estate loans, venture capital financing and micro loans. Loans receivable at December 31, 1997 and 1996 are summarized as follows:

|                             | <u>1997</u>          | <u>1996</u>      |
|-----------------------------|----------------------|------------------|
| Business loans:             |                      |                  |
| Term loans                  | \$ 17,206,375        | 2,275,000        |
| Lines of credit             | <u>904,586</u>       | <u>175,000</u>   |
| Total business loans        | 18,110,961           | 2,450,000        |
| Micro loans                 | <u>202,864</u>       | <u>—</u>         |
| Total loans                 | <u>18,313,825</u>    | <u>2,450,000</u> |
| Less:                       |                      |                  |
| Deferred loan fees          | 214,584              | 31,005           |
| Allowance for loan losses   | <u>4,681,531</u>     | <u>717,500</u>   |
|                             | <u>4,896,115</u>     | <u>748,505</u>   |
| Total loans receivable, net | <u>\$ 13,417,710</u> | <u>1,701,495</u> |

**LOS ANGELES COMMUNITY DEVELOPMENT BANK**  
**(NOT A COMMERCIAL BANK) AND SUBSIDIARY**  
(A California Nonprofit Corporation)

Notes to Consolidated Financial Statements, Continued

The weighted average interest rate on loans receivable, excluding nonaccrual loans, was 10.81% and 10.18% at December 31, 1997 and 1996, respectively. The effect of including nonaccrual loans decreases the weighted average interest rate on loans receivable at December 31, 1997 to 8.11%.

At December 31, 1997 and 1996, accrued interest receivable amounted to \$345,106 and \$24,402 and both impaired and nonaccrual loans amounted to \$4,871,846 and \$525,000, respectively. The effect of nonaccrual loans on interest income was a reduction of \$95,556 for the year ended December 31, 1997 and \$15,827 for the period from inception to December 31, 1996. LACDB has established a loan loss reserve of \$4,681,531 and \$717,500 at December 31, 1997 and 1996, respectively; no loan losses have been charged against this reserve.

**(5) Property and Equipment**

Property and equipment consists of the following at December 31, 1997 and 1996:

|  | 1997       | 1996    |
|--|------------|---------|
| Equipment                                      | \$ 205,086 | 78,326  |
| Tenant improvements                            | 111,491    | 49,621  |
| Software                                       | 71,479     | 20,323  |
|  | 388,056    | 148,270 |
| Less accumulated depreciation and amortization | (82,942)   | (5,119) |
| Net property and equipment                     | \$ 305,114 | 143,151 |

**(6) Long-Term Debt**

In addition to EDI and CDBG grants passed through the City and County, the primary sources of funding of LACDB's loan program is interim financing loans from a commercial bank and participation in U.S. Department of Housing and Urban Development Section 108 Government Guaranteed Participation Certificates, Series HUD 1997-A (Section 108 Certificates), both of which are guaranteed by the U.S. Department of Housing and Urban Development under Section 108 of the U.S. Community Development Act of 1974, as amended. The interim financing loans and Section 108 Certificates are between the City and/or County and the bank or certificate holders. The City and County have notes with LACDB with similar terms and conditions as the underlying debt; accordingly, the underlying debt is reflected on the accompanying consolidated financial statements. LACDB borrows under the interim financing arrangement on an as-needed basis. Periodically, the City and/or County participate in the issuance of the Section 108 Certificates, a portion of the proceeds of which is used to repay the interim financing arrangements.

**LOS ANGELES COMMUNITY DEVELOPMENT BANK**  
**(NOT A COMMERCIAL BANK) AND SUBSIDIARY**  
(A California Nonprofit Corporation)

Notes to Consolidated Financial Statements, Continued

**Interim Financing Loans**

The interim financing arrangement is guaranteed by the U.S. Department of Housing and Urban Development under Section 108 of the U.S. Community Development Act of 1974, as amended, and calls for quarterly interest-only payments at the London Inter-Bank Offering Rate (LIBOR) plus .2%. All notes are secured by LACDB's loan portfolio, debt service reserve accounts (see note 2) and the Section 108 Loan Guarantees. \$18,000,000 of outstanding principal and \$234,785 of accrued interest on the interim financing loan was repaid from a portion of the net proceeds of the Section 108 Certificates issued on October 28, 1997. An additional interim financing loan was made in October 1997 for County loans. As of December 31, 1997 and 1996, the balance of the interim financing loan was \$250,000 and \$5,000,000, respectively. Interest accrues at LIBOR plus .2% and is payable quarterly. Interest is paid through October 28, 1997, interest expense related to the City note totaled \$576,973 and \$173,941 for the year ended December 31, 1997 and 1996, respectively, and interest expense related to the County note totaled \$3,845 for the year ended December 31, 1997. The interim financing is due upon issuance of the City and/or County securities.

**Section 108 Certificates**

On October 28, 1998, the City, on behalf of LACDB, participated in \$30,000,000 of the \$283,320,000 U.S. Department of Housing and Urban Development Section 108 Government Guaranteed Participation Certificates, Series HUD 1997-A (Section 108 Certificates). The Section 108 Certificates represent a fractional undivided interest in a portion of a trust sponsored by the Secretary of HUD and administered by the Trustee (who also acts as the lender for the interim financing loans). The assets of the trust consist of notes issued by units of general local government or public agencies designed by such units of local government and a guaranty issued by the Secretary of HUD.

The Section 108 Certificates mature annually in various amounts beginning August 1, 1998 through August 1, 2017. The City participation consists of \$2,000,000 each of the fifteen annual maturities beginning August 1, 2003. Interest accrues at various fixed rates and is payable on February 1 and August 1, commencing February 1, 1998. Principal and interest payments must be paid to the Trustee seven business days prior to the respective due date. Section 108 Certificates maturing on or after August 1, 2008 may be prepaid by the related borrower, in whole or in part, as of any interest due date on or after August 1, 2007. Payments made in respect to such optional redemptions will be applied to outstanding principal amounts of the related note in accordance with instructions of the related borrower as approved by HUD. An acceleration event with respect to any note may occur on the note payment date on or after August 1, 2007. If the Secretary of HUD elects an acceleration, he will make an acceleration payment of 100% of the related aggregate principal amount of such note, together with accrued and unpaid interest thereon to the interest due date next following such acceleration event.

**LOS ANGELES COMMUNITY DEVELOPMENT BANK**  
**(NOT A COMMERCIAL BANK) AND SUBSIDIARY**  
(A California Nonprofit Corporation)

Notes to Consolidated Financial Statements, Continued

A debt service reserve fund is required in accordance with the Comprehensive CDB Agreement (see note 2). The outstanding balance of the City's participation in the Section 108 Certificates is \$30,000,000 at December 31, 1997. Debt service requirements to maturity on the outstanding Section 108 Certificates are as follows:

|                          | <u>Principal</u>     | <u>Interest</u>   | <u>Total</u>      |
|--------------------------|----------------------|-------------------|-------------------|
| Year ending December 31: |                      |                   |                   |
| 1998                     | \$ —                 | 1,531,530         | 1,531,530         |
| 1999                     | —                    | 2,019,600         | 2,019,600         |
| 2000                     | —                    | 2,019,600         | 2,019,600         |
| 2001                     | —                    | 2,019,600         | 2,019,600         |
| 2002                     | —                    | 2,019,600         | 2,019,600         |
| Thereafter               | <u>30,000,000</u>    | <u>16,501,400</u> | <u>46,501,400</u> |
|                          | <u>\$ 30,000,000</u> | <u>26,111,330</u> | <u>56,111,330</u> |

**(7) Net Assets**

Until such time as program income (repayments of loan interest and principal, interest on cash balances, loan fees, and the like) is sufficient to fund repayment of Section 108 Loans and LACDB operations, all operating expenditures are supplemented by the City and County EDI and CDBG grants to LACDB. During the year ended December 31, 1997 and period ended December 31, 1996, the EDI and CDBG grants funded all such operating costs, including Section 108 Loan costs in excess of Section 108 Loan revenues, plus the purchase of property and equipment totaling \$239,786 and \$148,270, respectively. Unrestricted net assets represents the net book value of such property and equipment at December 31, 1997 and 1996, respectively. Temporarily restricted net assets of \$285,995 and \$0 represents the activities of the small business lending workshop and the LACDB Community Investment LLC for the year ended December 31, 1997 and period ended December 31, 1996, respectively.

**(8) Formation Costs**

During its first year of operation, much of the LACDB's operating expenses related to its formation. Costs included in formation costs were based upon an analysis of work performed, nature of cost, timing of cost and other management estimates.

Details of formation costs are as follows:

|                                      |                     |
|--------------------------------------|---------------------|
| Contributed professional services    | \$ 1,309,098        |
| Salaries, benefits and related taxes | 513,162             |
| Legal                                | 352,262             |
| Outside services                     | 207,078             |
| Personnel recruitment                | 76,616              |
| Other                                | <u>165,310</u>      |
| Total formation costs                | <u>\$ 2,623,526</u> |

**LOS ANGELES COMMUNITY DEVELOPMENT BANK**  
**(NOT A COMMERCIAL BANK) AND SUBSIDIARY**  
(A California Nonprofit Corporation)

Notes to Consolidated Financial Statements, Continued

**(9) Commitments**

LACDB had commitments to fund new loans totaling \$14,450,515 and \$4,982,000 and commitments to fund additional loans to existing borrowers of \$6,212,670 and \$400,000 at December 31, 1997 and 1996, respectively.

LACDB leases equipment and office facilities under noncancelable operating lease agreements expiring through July 31, 2000. At December 31, 1997, the minimum commitments under these leases are as follows:

| Year ending December 31: |                   |
|--------------------------|-------------------|
| 1998                     | \$ 105,760        |
| 1999                     | 96,038            |
| 2000                     | <u>7,178</u>      |
|                          | <u>\$ 208,976</u> |

Operating lease expense totaled approximately \$83,245 and \$5,618 for the year ended December 31, 1997 and period ended December 31, 1996, respectively.

**(10) Contingencies**

**Litigation and Claims**

In the normal course of business, various claims and demands have been made against LACDB. Based upon consultation with LACDB counsel and other attorneys, management believes that these claims and demands, in the aggregate, are not expected to result in a material adverse financial impact to LACDB.

**(11) 401(k) Plan**

In April 1997, LACDB established a 401(k) Pension Plan available to all full-time employees who have completed 90 days of service. Eligibility requirements are waived for employees hired prior to March 1, 1997. Employees may contribute up to 15% of their pay up to the Federal maximums (\$9,500 for 1997). LACDB will match 100% of the first 4% of an employee's contributions. Employees' contributions and earnings vest immediately. LACDB contributions vest 100% after one year of service. Loans may be taken against the employee's account in amounts up to 50% of an employee's vested account balance.

**Supplementary Information –  
Combining Schedules**

**LOS ANGELES COMMUNITY DEVELOPMENT BANK  
(NOT A COMMERCIAL BANK) AND SUBSIDIARY**  
(A California Nonprofit Corporation)

Combining Schedule of Financial Position - All Grant Programs

December 31, 1997

| Assets  | City Grant Programs  | County Grant Programs | Small Business Lending Workshop | Total LACDB       | LACDB Community Investment LLC | Eliminations     | Total             |
|---|----------------------|-----------------------|---------------------------------|-------------------|--------------------------------|------------------|-------------------|
| Cash and cash equivalents:  |                      |                       |                                 |                   |                                |                  |                   |
| Unreserved  | \$ 12,481,554        | 157,304               | 63,545                          | 12,702,403        | 251,841                        |                  | 12,954,244        |
| Debt service reserve - Section 108 Loan fund  | 2,760,848            | —                     | —                               | 2,760,848         | —                              |                  | 2,760,848         |
| Loan loss reserve fund  | 1,845,122            | —                     | —                               | 1,845,122         | —                              |                  | 1,845,122         |
| Total cash and cash equivalents   | <u>17,087,524</u>    | <u>157,304</u>        | <u>63,545</u>                   | <u>17,308,373</u> | <u>251,841</u>                 |                  | <u>17,560,214</u> |
| Grants receivable   | 3,728,131            | 597,226               | —                               | 4,325,357         | —                              |                  | 4,325,357         |
| Loans receivable  | 18,221,825           | 92,000                | —                               | 18,313,825        | —                              |                  | 18,313,825        |
| Less:   |                      |                       |                                 |                   |                                |                  |                   |
| Allowance for loan losses   | (4,672,331)          | (9,200)               | —                               | (4,681,531)       | —                              |                  | (4,681,531)       |
| Deferred loan fees  | (212,596)            | (1,988)               | —                               | (214,584)         | —                              |                  | (214,584)         |
| Total loans receivable, net   | <u>13,336,898</u>    | <u>80,812</u>         | <u>—</u>                        | <u>13,417,710</u> | <u>—</u>                       |                  | <u>13,417,710</u> |
| Accrued interest receivable   | 344,476              | 630                   | —                               | 345,106           | —                              |                  | 345,106           |
| Other receivables   | 1,375                | —                     | —                               | 1,375             | —                              |                  | 1,375             |
| Prepaid expenses  | 37,739               | 5,241                 | —                               | 42,980            | —                              |                  | 42,980            |
| Security deposits   | 5,186                | 775                   | —                               | 5,961             | —                              |                  | 5,961             |
| Deferred U.S. Department of Housing and Urban Development Section 108 Government Guaranteed Participation Certificates issuance costs, net of accumulated amortization of \$ 278 at December 31, 1997 | 152,107              | —                     | —                               | 152,107           | —                              |                  | 152,107           |
| Due from other grant programs   | 594,059              | 6,451                 | —                               | 600,510           | —                              | (600,510)        | —                 |
| Property and equipment  | 337,609              | 50,447                | —                               | 388,056           | —                              |                  | 388,056           |
| Less accumulated depreciation and amortization  | (72,161)             | (10,782)              | —                               | (82,943)          | —                              |                  | (82,943)          |
| Total property and equipment, net   | <u>265,448</u>       | <u>39,665</u>         | <u>—</u>                        | <u>305,113</u>    | <u>—</u>                       |                  | <u>305,113</u>    |
| Total assets  | <u>\$ 35,552,943</u> | <u>888,104</u>        | <u>63,545</u>                   | <u>36,504,592</u> | <u>251,841</u>                 | <u>(600,510)</u> | <u>36,155,923</u> |
| <b>Liabilities and Net Assets</b>   |                      |                       |                                 |                   |                                |                  |                   |
| Accounts payable and accrued liabilities  | \$ 335,275           | 24,804                | —                               | 360,079           | —                              |                  | 360,079           |
| Interest payable  | 351,481              | 2,556                 | —                               | 354,037           | —                              |                  | 354,037           |
| Deferred revenue  | 4,600,739            | —                     | —                               | 4,600,739         | —                              |                  | 4,600,739         |
| Interim financing loan, guaranteed under Section 108 of the Housing and Community Development Act of 1974   | —                    | 250,000               | —                               | 250,000           | —                              |                  | 250,000           |
| U.S. Department of Housing and Urban Development Section 108 Government Guaranteed Participation Certificates payable   | 30,000,000           | —                     | —                               | 30,000,000        | —                              |                  | 30,000,000        |
| Due to other grant programs   | —                    | 571,079               | 6,393                           | 577,472           | 23,038                         | (600,510)        | —                 |
| Total liabilities   | <u>35,287,495</u>    | <u>848,439</u>        | <u>6,393</u>                    | <u>36,142,327</u> | <u>23,038</u>                  | <u>(600,510)</u> | <u>35,564,855</u> |
| Net assets:   |                      |                       |                                 |                   |                                |                  |                   |
| Temporarily restricted  | —                    | —                     | 57,152                          | 57,152            | 228,803                        |                  | 285,955           |
| Unrestricted  | 265,448              | 39,665                | —                               | 305,113           | —                              |                  | 305,113           |
| Total net assets  | <u>\$ 265,448</u>    | <u>39,665</u>         | <u>57,152</u>                   | <u>362,265</u>    | <u>228,803</u>                 |                  | <u>591,068</u>    |
| Total liabilities, net assets and contributed capital   | <u>\$ 35,552,943</u> | <u>888,104</u>        | <u>63,545</u>                   | <u>36,504,592</u> | <u>251,841</u>                 | <u>(600,510)</u> | <u>36,155,923</u> |

See accompanying independent auditors' report.

**LOS ANGELES COMMUNITY DEVELOPMENT BANK  
(NOT A COMMERCIAL BANK) AND SUBSIDIARY  
(A California Nonprofit Corporation)**  
Combining Schedule of Activity - All Grant Programs  
Year ended December 31, 1997

|   | City Grant<br>Programs | County Grant<br>Programs | Small<br>Business<br>Lending<br>Workshop | Total<br>LACDB   | LACDB<br>Community<br>Investment<br>LLC | Total            |
|---|------------------------|--------------------------|--|------------------|---|------------------|
| <b>Unrestricted:</b>  |                        |                          |  |                  |   |                  |
| Public support, revenue and net assets released from restriction:             |                        |                          |  |                  |   |                  |
| Public support:   |                        |                          |  |                  |   |                  |
| Grants:   |                        |                          |  |                  |   |                  |
| City of Los Angeles   | \$ 6,244,008           | —                        | —  | 6,244,008        | —                                       | 6,244,008        |
| County of Los Angeles   | —                      | 370,952                  | —  | 370,952          | —                                       | 370,952          |
| Contributed services  | 3,459                  | —                        | —  | 3,459            | —                                       | 3,459            |
| <b>Total public support</b>   | <b>6,247,467</b>       | <b>370,952</b>           | <b>—</b>                                 | <b>6,618,419</b> | <b>—</b>                                | <b>6,618,419</b> |
| Revenue:  |                        |                          |  |                  |   |                  |
| Interest:   |                        |                          |  |                  |   |                  |
| Loans   | 822,615                | 1,972                    | —  | 824,587          | —                                       | 824,587          |
| Cash and cash equivalents   | 287,286                | 1,782                    | 926                                      | 289,994          | 5,154                                   | 295,148          |
| <b>Total revenue</b>  | <b>1,109,901</b>       | <b>3,754</b>             | <b>926</b>                               | <b>1,114,581</b> | <b>5,154</b>                            | <b>1,119,735</b> |
| Net assets released from restriction  | —                      | —                        | 18,774                                   | 18,774           | 26,351                                  | 45,125           |
| <b>Total public support, revenue and net assets released from restriction</b> | <b>7,357,368</b>       | <b>374,706</b>           | <b>19,700</b>                            | <b>7,751,774</b> | <b>31,505</b>                           | <b>7,783,279</b> |
| Expenses:   |                        |                          |  |                  |   |                  |
| Program services:   |                        |                          |  |                  |   |                  |
| Interest expense  | 929,732                | 3,845                    | —  | 933,577          | —                                       | 933,577          |
| Provision for loan losses   | 3,954,832              | 9,200                    | —  | 3,964,032        | —                                       | 3,964,032        |
| Other program services  | 1,901,228              | 276,253                  | 12,381                                   | 2,189,862        | 6,800                                   | 2,196,662        |
| <b>Total program services</b>   | <b>6,785,792</b>       | <b>289,298</b>           | <b>12,381</b>                            | <b>7,087,471</b> | <b>6,800</b>                            | <b>7,094,271</b> |
| Supporting services - general and administrative services                     | 430,669                | 64,353                   | 6,393                                    | 501,415          | 19,551                                  | 520,966          |
| <b>Total expenses</b>   | <b>7,216,461</b>       | <b>353,651</b>           | <b>18,774</b>                            | <b>7,588,886</b> | <b>26,351</b>                           | <b>7,615,237</b> |
| <b>Change in unrestricted net assets</b>                                      | <b>140,907</b>         | <b>21,055</b>            | <b>926</b>                               | <b>162,888</b>   | <b>5,154</b>                            | <b>168,042</b>   |
| <b>Temporarily restricted:</b>  |                        |                          |  |                  |   |                  |
| Public support and net assets released from restriction:                      |                        |                          |  |                  |   |                  |
| Public support - contributions  | —                      | —                        | 75,000                                   | 75,000           | 250,000                                 | 325,000          |
| Net assets released from restriction  | —                      | —                        | (18,774)                                 | (18,774)         | (26,351)                                | (45,125)         |
| <b>Total public support and net assets released from restriction</b>          | <b>—</b>               | <b>—</b>                 | <b>56,226</b>                            | <b>56,226</b>    | <b>223,649</b>                          | <b>279,875</b>   |
| <b>Change in temporarily restricted net assets</b>                            | <b>—</b>               | <b>—</b>                 | <b>56,226</b>                            | <b>56,226</b>    | <b>223,649</b>                          | <b>279,875</b>   |
| <b>Total change in net assets</b>   | <b>140,907</b>         | <b>21,055</b>            | <b>57,152</b>                            | <b>219,114</b>   | <b>228,803</b>                          | <b>447,917</b>   |
| Net assets, January 1, 1997   | 124,541                | 18,610                   | —  | 143,151          | —                                       | 143,151          |
| <b>Net assets, December 31, 1997</b>  | <b>\$ 265,448</b>      | <b>39,665</b>            | <b>57,152</b>                            | <b>362,265</b>   | <b>228,803</b>                          | <b>591,068</b>   |

See accompanying independent auditors' report.

**LOS ANGELES COMMUNITY DEVELOPMENT BANK  
(NOT A COMMERCIAL BANK) AND SUBSIDIARY  
(A California Nonprofit Corporation)**  
Combining Schedule of Activity – All Grant Programs  
Year ended December 31, 1997

|   | City Grant<br>Programs | County Grant<br>Programs | Small<br>Business<br>Lending<br>Workshop | Total<br>LACDB   | LACDB<br>Community<br>Investment<br>I.L.C. | Total            |
|---|------------------------|--------------------------|--|------------------|--|------------------|
| <b>Unrestricted:</b>  |                        |                          |  |                  |  |                  |
| Public support, revenue and net assets released from restriction:             |                        |                          |  |                  |  |                  |
| Public support:   |                        |                          |  |                  |  |                  |
| Grants:   |                        |                          |  |                  |  |                  |
| City of Los Angeles   | \$ 6,244,008           | —                        | —  | 6,244,008        | —  | 6,244,008        |
| County of Los Angeles   | —                      | 370,952                  | —  | 370,952          | —  | 370,952          |
| Contributed services  | 3,459                  | —                        | —  | 3,459            | —  | 3,459            |
| <b>Total public support</b>   | <b>6,247,467</b>       | <b>370,952</b>           | <b>—</b>                                 | <b>6,618,419</b> | <b>—</b>                                   | <b>6,618,419</b> |
| Revenue:  |                        |                          |  |                  |  |                  |
| Interest:   |                        |                          |  |                  |  |                  |
| Loans   | 822,615                | 1,972                    | —  | 824,587          | —  | 824,587          |
| Cash and cash equivalents   | 287,286                | 1,782                    | 926                                      | 289,994          | 5,154                                      | 295,148          |
| <b>Total revenue</b>  | <b>1,109,901</b>       | <b>3,754</b>             | <b>926</b>                               | <b>1,114,581</b> | <b>5,154</b>                               | <b>1,119,735</b> |
| Net assets released from restriction  | —                      | —                        | 18,774                                   | 18,774           | 26,351                                     | 45,125           |
| <b>Total public support, revenue and net assets released from restriction</b> | <b>7,357,368</b>       | <b>374,706</b>           | <b>19,700</b>                            | <b>7,751,774</b> | <b>31,505</b>                              | <b>7,783,279</b> |
| <b>Expenses:</b>  |                        |                          |  |                  |  |                  |
| Program services:   |                        |                          |  |                  |  |                  |
| Interest expense  | 929,732                | 3,845                    | —  | 933,577          | —  | 933,577          |
| Provision for loan losses   | 3,954,832              | 9,200                    | —  | 3,964,032        | —  | 3,964,032        |
| Other program services  | 1,901,228              | 276,253                  | 12,381                                   | 2,189,862        | 6,800                                      | 2,196,662        |
| <b>Total program services</b>   | <b>6,785,792</b>       | <b>289,298</b>           | <b>12,381</b>                            | <b>7,087,471</b> | <b>6,800</b>                               | <b>7,094,271</b> |
| Supporting services – general and administrative services                     | 430,669                | 64,353                   | 6,393                                    | 501,415          | 19,551                                     | 520,966          |
| <b>Total expenses</b>   | <b>7,216,461</b>       | <b>353,651</b>           | <b>18,774</b>                            | <b>7,588,886</b> | <b>26,351</b>                              | <b>7,615,237</b> |
| Change in unrestricted net assets   | 140,907                | 21,055                   | 926                                      | 162,888          | 5,154                                      | 168,042          |
| <b>Temporarily restricted:</b>  |                        |                          |  |                  |  |                  |
| Public support and net assets released from restriction:                      |                        |                          |  |                  |  |                  |
| Public support – contributions  | —                      | —                        | 75,000                                   | 75,000           | 250,000                                    | 325,000          |
| Net assets released from restriction  | —                      | —                        | (18,774)                                 | (18,774)         | (26,351)                                   | (45,125)         |
| <b>Total public support and net assets released from restriction</b>          | <b>—</b>               | <b>—</b>                 | <b>56,226</b>                            | <b>56,226</b>    | <b>223,649</b>                             | <b>279,875</b>   |
| Change in temporarily restricted net assets                                   | —                      | —                        | 56,226                                   | 56,226           | 223,649                                    | 279,875          |
| <b>Total change in net assets</b>   | <b>140,907</b>         | <b>21,055</b>            | <b>57,152</b>                            | <b>219,114</b>   | <b>228,803</b>                             | <b>447,917</b>   |
| Net assets, January 1, 1997   | 124,541                | 18,610                   | —  | 143,151          | —  | 143,151          |
| Net assets, December 31, 1997   | \$ 265,448             | 39,665                   | 57,152                                   | 362,265          | 228,803                                    | 591,068          |

See accompanying independent auditors' report.

**LOS ANGELES COMMUNITY DEVELOPMENT BANK  
(NOT A COMMERCIAL BANK) AND SUBSIDIARY  
(A California Nonprofit Corporation)**  
Combining Schedule of Cash Flows - All Grant Programs  
Year ended December 31, 1997

|  | City Grant Programs | County Grant Programs | Small Business Lending Workshop | Total LACDB  | LACDB Community Investment LLC | Eliminations | Total        |
|--|---------------------|-----------------------|---------------------------------|--------------|--------------------------------|--------------|--------------|
| <b>Cash flows from operating activities:</b>   |                     |                       |                                 |              |                                |              |              |
| Grant revenues received  | \$ 7,335,377        | —                     | —                               | 7,335,377    | —                              | —            | 7,335,377    |
| Loan interest and fees received  | 682,757             | 3,330                 | —                               | 686,087      | —                              | —            | 686,087      |
| Interest on cash and cash equivalents received   | 287,285             | 1,782                 | 926                             | 289,993      | 5,154                          | —            | 295,147      |
| Contributions received   | —                   | —                     | 75,000                          | 75,000       | 250,000                        | —            | 325,000      |
| Interest paid on interim financing loan  | (390,614)           | (1,289)               | —                               | (391,903)    | —                              | —            | (391,903)    |
| Payments to employees and others   | (1,465,181)         | (218,935)             | —                               | (1,684,116)  | —                              | —            | (1,684,116)  |
| Payments to vendors and others   | (876,645)           | 245,588               | (12,381)                        | (643,438)    | (3,313)                        | —            | (646,751)    |
| Net cash provided by operating activities  | 5,572,979           | 30,476                | 62,545                          | 5,667,000    | 251,841                        | —            | 5,918,841    |
| <b>Cash flows from investing activities:</b>   |                     |                       |                                 |              |                                |              |              |
| Purchases of property and equipment  | (208,614)           | (31,172)              | —                               | (239,786)    | —                              | —            | (239,786)    |
| Loans originated   | (16,608,014)        | (92,000)              | —                               | (16,700,014) | —                              | —            | (16,700,014) |
| Loan principal payments received   | 836,189             | —                     | —                               | 836,189      | —                              | —            | 836,189      |
| Net cash provided by (used in) investing activities  | (15,980,439)        | (123,172)             | —                               | (16,103,611) | —                              | —            | (16,103,611) |
| <b>Cash flows from financing activities:</b>   |                     |                       |                                 |              |                                |              |              |
| Proceeds from interim financing loan   | 13,000,000          | 250,000               | —                               | 13,250,000   | —                              | —            | 13,250,000   |
| Proceeds from issuance of U.S. Department of Housing and Urban Development Section 108 Government Guaranteed Participation Certificates      | 11,611,830          | —                     | —                               | 11,611,830   | —                              | —            | 11,611,830   |
| Net cash provided by financing activities  | 24,611,830          | 250,000               | —                               | 24,861,830   | —                              | —            | 24,861,830   |
| Net increase in cash and cash equivalents  | 14,204,370          | 157,304               | 63,545                          | 14,425,219   | 251,841                        | —            | 14,677,060   |
| Cash and cash equivalents, January 1, 1997   | 2,883,154           | —                     | —                               | 2,883,154    | —                              | —            | 2,883,154    |
| Cash and cash equivalents, December 31, 1997   | \$ 17,087,524       | 157,304               | 63,545                          | 17,308,373   | 251,841                        | —            | 17,560,214   |
| <b>Reconciliation of change in net assets to net cash provided by operating activities:</b>  |                     |                       |                                 |              |                                |              |              |
| Change in net assets   | \$ 140,907          | 21,055                | 57,152                          | 219,114      | 228,803                        | —            | 447,917      |
| <b>Adjustments to reconcile change in net assets to net cash provided by operating activities:</b>   |                     |                       |                                 |              |                                |              |              |
| Depreciation   | 67,706              | 10,117                | —                               | 77,823       | —                              | —            | 77,823       |
| Provision for loan losses  | 3,954,832           | 9,200                 | —                               | 3,964,032    | —                              | —            | 3,964,032    |
| Amortization of net loan fees  | (30,138)            | (662)                 | —                               | (30,800)     | —                              | —            | (30,800)     |
| Amortization of U.S. Department of Housing and Urban Development Section 108 Government Guaranteed Participation Certificates issuance costs | 1,278               | —                     | —                               | 1,278        | —                              | —            | 1,278        |
| <b>Change in operating assets and liabilities:</b>   |                     |                       |                                 |              |                                |              |              |
| Increase in receivables:   |                     |                       |                                 |              |                                |              |              |
| Grants   | (3,509,370)         | (364,501)             | —                               | (3,873,871)  | —                              | —            | (3,873,871)  |
| Interest   | (320,074)           | (630)                 | —                               | (320,704)    | —                              | —            | (320,704)    |
| Other receivables  | (1,375)             | —                     | —                               | (1,375)      | —                              | —            | (1,375)      |
| Increase in deferred loan fees, net  | 211,728             | 2,650                 | —                               | 214,378      | —                              | —            | 214,378      |
| Increase in prepaid expenses and other current assets  | (26,797)            | (3,606)               | —                               | (30,403)     | —                              | —            | (30,403)     |
| Increase in due from other grant programs  | (362,908)           | (22,230)              | —                               | (385,138)    | —                              | 385,138      | —            |
| Increase in accounts payable and accrued expenses  | 308,611             | 20,820                | —                               | 329,431      | —                              | —            | 329,431      |
| Increase in interest payable   | 537,840             | 2,556                 | —                               | 540,396      | —                              | —            | 540,396      |
| Increase in deferred revenue   | 4,600,739           | —                     | —                               | 4,600,739    | —                              | —            | 4,600,739    |
| Increase in due to other grant programs  | —                   | 355,707               | 6,393                           | 362,100      | 23,038                         | (385,138)    | —            |
| Total adjustments  | 5,432,072           | 9,421                 | 6,393                           | 5,447,886    | 23,038                         | —            | 5,470,924    |
| Net cash provided by operating activities  | \$ 5,572,979        | 30,476                | 63,545                          | 5,667,000    | 251,841                        | —            | 5,918,841    |

See accompanying independent auditors' report.

**LOS ANGELES COMMUNITY DEVELOPMENT BANK  
(NOT A COMMERCIAL BANK) AND SUBSIDIARY  
(A California Nonprofit Corporation)**

Combining Schedule of Financial Position -- City of Los Angeles Grant Programs  
December 31, 1997

| Assets  | EDI                 | CDBG           | Section 108<br>Loans | Eliminations       | Total             |
|---|---------------------|----------------|----------------------|--------------------|-------------------|
| Cash and cash equivalents:  |                     |                |                      |                    |                   |
| Unreserved  | \$ 187,316          | —              | 12,294,238           |                    | 12,481,554        |
| Debt service reserve -- Section 108 Loan fund   | 2,697,139           | —              | 63,709               |                    | 2,760,848         |
| Loan loss reserve fund  | 1,808,600           | —              | 36,522               |                    | 1,845,122         |
| Total cash and cash equivalents   | <u>4,693,055</u>    | <u>—</u>       | <u>12,394,469</u>    |                    | <u>17,087,524</u> |
| Grants receivable   | 3,452,408           | 275,723        | —                    |                    | 3,728,131         |
| Loans receivable  | 202,864             | —              | 18,018,961           |                    | 18,221,825        |
| Less:   |                     |                |                      |                    |                   |
| Allowance for loan losses   | (81,146)            | —              | (4,591,185)          |                    | (4,672,331)       |
| Deferred loan fees  | (222)               | —              | (212,374)            |                    | (212,596)         |
| Total loans receivable, net   | <u>121,496</u>      | <u>—</u>       | <u>13,215,402</u>    |                    | <u>13,336,898</u> |
| Accrued interest receivable   | 1,901               | —              | 342,575              |                    | 344,476           |
| Other receivables   | —                   | —              | 1,375                |                    | 1,375             |
| Prepaid expenses  | 35,073              | —              | 2,666                |                    | 37,739            |
| Security deposits   | 5,186               | —              | —                    |                    | 5,186             |
| Deferred U.S. Department of Housing and Urban Development<br>Section 108 Government Guaranteed Participation Certificates<br>issuance costs, net of accumulated amortization of \$1,278 at<br>December 31, 1997 | —                   | —              | 152,107              |                    | 152,107           |
| Due from other grant programs   | 674,204             | —              | 4,471,276            | (4,551,421)        | 594,059           |
| Property and equipment  | 337,609             | —              | —                    |                    | 337,609           |
| Less accumulated depreciation and amortization  | (72,161)            | —              | —                    |                    | (72,161)          |
| Total property and equipment, net   | <u>265,448</u>      | <u>—</u>       | <u>—</u>             |                    | <u>265,448</u>    |
| Total assets  | <u>\$ 9,248,771</u> | <u>275,723</u> | <u>30,579,870</u>    | <u>(4,551,421)</u> | <u>35,552,943</u> |
| <b>Liabilities and Net Assets</b>   |                     |                |                      |                    |                   |
| Accounts payable and accrued liabilities  | \$ 92,131           | 60,900         | 182,244              |                    | 335,275           |
| Interest payable  | —                   | —              | 351,481              |                    | 351,481           |
| Deferred revenue  | 4,505,739           | 95,000         | —                    |                    | 4,600,739         |
| U.S. Department of Housing and Urban Development Section 108<br>Government Guaranteed Participation Certificates payable  | —                   | —              | 30,000,000           |                    | 30,000,000        |
| Due to other grant programs   | 4,385,453           | 119,823        | 46,145               | (4,551,421)        | —                 |
| Total liabilities   | <u>8,983,323</u>    | <u>275,723</u> | <u>30,579,870</u>    | <u>(4,551,421)</u> | <u>35,287,495</u> |
| Net assets -- unrestricted  | 265,448             | —              | —                    |                    | 265,448           |
| Total liabilities and net assets  | <u>\$ 9,248,771</u> | <u>275,723</u> | <u>30,579,870</u>    | <u>(4,551,421)</u> | <u>35,552,943</u> |

See accompanying independent auditors' report.

**LOS ANGELES COMMUNITY DEVELOPMENT BANK**  
**(NOT A COMMERCIAL BANK) AND SUBSIDIARY**  
(A California Nonprofit Corporation)  
Combining Schedule of Activity – City of Los Angeles Grant Programs  
Year ended December 31, 1997

|   | <u>EDI</u>        | <u>CDBG</u>    | <u>Section 108<br/>Loans</u> | <u>Total</u>     |
|---|-------------------|----------------|------------------------------|------------------|
| <b>Public support and revenue:</b>      |                   |                |                              |                  |
| Public support:                         |                   |                |                              |                  |
| Grants                                  | \$ 6,063,285      | 180,723        | —                            | 6,244,008        |
| Contributed services                    | 3,459             | —              | —                            | 3,459            |
| <b>Total public support</b>             | <u>6,066,744</u>  | <u>180,723</u> | <u>—</u>                     | <u>6,247,467</u> |
| <b>Revenue:</b>                         |                   |                |                              |                  |
| Interest:                               |                   |                |                              |                  |
| Loans                                   | 5,651             | —              | 816,964                      | 822,615          |
| Cash and cash equivalents               | 2,156             | —              | 285,130                      | 287,286          |
| <b>Total revenue</b>                    | <u>7,807</u>      | <u>—</u>       | <u>1,102,094</u>             | <u>1,109,901</u> |
| <b>Total public support and revenue</b> | <u>6,074,551</u>  | <u>180,723</u> | <u>1,102,094</u>             | <u>7,357,368</u> |
| <b>Expenses:</b>                        |                   |                |                              |                  |
| Program services:                       |                   |                |                              |                  |
| Interest expense                        | —                 | —              | 929,732                      | 929,732          |
| Provision for loan losses               | 81,146            | —              | 3,873,686                    | 3,954,832        |
| Other program services                  | 1,837,169         | 34,000         | 30,059                       | 1,901,228        |
| <b>Total program services</b>           | <u>1,918,315</u>  | <u>34,000</u>  | <u>4,833,477</u>             | <u>6,785,792</u> |
| Supporting services:                    |                   |                |                              |                  |
| General and administrative services     | 369,769           | 60,900         | —                            | 430,669          |
| Interprogram allocation                 | 3,645,560         | 85,823         | (3,731,383)                  | —                |
| <b>Total supporting services</b>        | <u>4,015,329</u>  | <u>146,723</u> | <u>(3,731,383)</u>           | <u>430,669</u>   |
| <b>Total expenses</b>                   | <u>5,933,644</u>  | <u>180,723</u> | <u>1,102,094</u>             | <u>7,216,461</u> |
| <b>Change in net assets</b>             | <u>140,907</u>    | <u>—</u>       | <u>—</u>                     | <u>140,907</u>   |
| <b>Net assets, January 1, 1997</b>      | <u>124,541</u>    | <u>—</u>       | <u>—</u>                     | <u>124,541</u>   |
| <b>Net assets, December 31, 1997</b>    | <u>\$ 265,448</u> | <u>—</u>       | <u>—</u>                     | <u>265,448</u>   |

See accompanying independent auditors' report.

**LOS ANGELES COMMUNITY DEVELOPMENT BANK  
(NOT A COMMERCIAL BANK) AND SUBSIDIARY**  
(A California Nonprofit Corporation)  
Combining Schedule of Cash Flows - City of Los Angeles Grant Programs  
Year ended December 31, 1997

|  | EDI                 | CDBG      | Section 108<br>Loans | Eliminations | Total               |
|--|---------------------|-----------|----------------------|--------------|---------------------|
| <b>Cash flows from operating activities:</b>   |                     |           |                      |              |                     |
| Grant revenues received  | \$ 7,335,377        | —         | —                    | —            | 7,335,377           |
| Loan interest and fees received  | 3,972               | —         | 678,785              | —            | 682,757             |
| Interest on cash and cash equivalents received   | 2,156               | —         | 285,129              | —            | 287,285             |
| Interest paid on interim financing loan  | —                   | —         | (390,614)            | —            | (390,614)           |
| Payments to employees and others   | (1,465,181)         | —         | —                    | —            | (1,465,181)         |
| Payments to vendors and others   | (1,072,309)         | —         | 195,664              | —            | (876,645)           |
| Net cash provided by operating activities  | <u>4,804,015</u>    | <u>—</u>  | <u>768,964</u>       | <u>—</u>     | <u>5,572,979</u>    |
| <b>Cash flows from investing activities:</b>   |                     |           |                      |              |                     |
| Purchases of property and equipment  | (208,614)           | —         | —                    | —            | (208,614)           |
| Loans originated   | (217,383)           | —         | (16,390,631)         | —            | (16,608,014)        |
| Loan principal payments received   | 14,519              | —         | 821,670              | —            | 836,189             |
| Net cash used in investing activities  | <u>(411,478)</u>    | <u>—</u>  | <u>(15,568,961)</u>  | <u>—</u>     | <u>(15,980,439)</u> |
| <b>Cash flows from financing activities:</b>   |                     |           |                      |              |                     |
| Proceeds from interim financing loan   | —                   | —         | 13,000,000           | —            | 13,000,000          |
| Proceeds from bonds  | —                   | —         | 11,611,830           | —            | 11,611,830          |
| Net cash provided by financing activities  | <u>—</u>            | <u>—</u>  | <u>24,611,830</u>    | <u>—</u>     | <u>24,611,830</u>   |
| Net increase in cash and cash equivalents  | 4,392,537           | —         | 9,811,833            | —            | 14,204,370          |
| Cash and cash equivalents, January 1, 1997   | 300,518             | —         | 2,582,636            | —            | 2,883,154           |
| Cash and cash equivalents, December 31, 1997   | <u>\$ 4,693,055</u> | <u>—</u>  | <u>12,394,469</u>    | <u>—</u>     | <u>17,087,524</u>   |
| <b>Reconciliation of change in net assets to net cash provided by operating activities:</b>  |                     |           |                      |              |                     |
| Change in net assets   | \$ 140,907          | —         | —                    | —            | 140,907             |
| <b>Adjustments to reconcile change in net assets to net cash provided by operating activities:</b>   |                     |           |                      |              |                     |
| Depreciation   | 67,706              | —         | —                    | —            | 67,706              |
| Provision for loan losses  | 81,146              | —         | 3,873,686            | —            | 3,954,832           |
| Amortization of net loan fees  | (28)                | —         | (30,110)             | —            | (30,138)            |
| Amortization of U.S. Department of Housing and Urban Development Section 108 Government Guaranteed Participation Certificates issuance costs | —                   | —         | 1,278                | —            | 1,278               |
| <b>Change in operating assets and liabilities:</b>   |                     |           |                      |              |                     |
| <b>Increase in receivables:</b>  |                     |           |                      |              |                     |
| Grants   | (3,233,647)         | (275,723) | —                    | —            | (3,509,370)         |
| Interest   | (1,901)             | —         | (318,173)            | —            | (320,074)           |
| Other receivables  | —                   | —         | (1,375)              | —            | (1,375)             |
| Increase in deferred loan fees, net  | 250                 | —         | 211,478              | —            | 211,728             |
| (Increase) decrease in prepaid expenses and other current assets   | (24,131)            | —         | (2,666)              | —            | (26,797)            |
| Increase in due from other grant programs  | (443,053)           | —         | (3,731,383)          | 3,811,528    | (362,908)           |
| Increase in accounts payable and accrued expenses  | 65,467              | 60,900    | 182,244              | —            | 308,611             |
| Increase in interest payable   | —                   | —         | 537,840              | —            | 537,840             |
| Increase in deferred revenue   | 4,505,739           | 95,000    | —                    | —            | 4,600,739           |
| Increase in due to other grant programs  | 3,645,560           | 119,823   | 46,145               | (3,811,528)  | —                   |
| Total adjustments  | <u>4,663,108</u>    | <u>—</u>  | <u>768,964</u>       | <u>—</u>     | <u>5,432,072</u>    |
| Net cash provided by operating activities  | <u>\$ 4,804,015</u> | <u>—</u>  | <u>768,964</u>       | <u>—</u>     | <u>5,572,979</u>    |

See accompanying independent auditors' report.

**LOS ANGELES COMMUNITY DEVELOPMENT BANK  
(NOT A COMMERCIAL BANK) AND SUBSIDIARY  
(A California Nonprofit Corporation)**

Combining Schedule of Financial Position -- County of Los Angeles Grant Programs  
December 31, 1997

| Assets   | EDI        | CDBG  | Section 108<br>Loans | Eliminations | Total    |
|--|------------|-------|----------------------|--------------|----------|
| Cash and cash equivalents - unreserved   | \$ —       | —     | 157,304              |              | 157,304  |
| Grants receivable  | 588,126    | 9,100 | —                    |              | 597,226  |
| Loans receivable   | —          | —     | 92,000               |              | 92,000   |
| Less:  |            |       |                      |              |          |
| Allowance for loan losses  | —          | —     | (9,200)              |              | (9,200)  |
| Deferred loan fees   | —          | —     | (1,988)              |              | (1,988)  |
| Total loans receivable, net  | —          | —     | 80,812               |              | 80,812   |
| Accrued interest receivable  | —          | —     | 630                  |              | 630      |
| Prepaid expenses   | 5,241      | —     | —                    |              | 5,241    |
| Security deposits  | 775        | —     | —                    |              | 775      |
| Due from other grant programs  | 6,451      | —     | 15,779               | (15,779)     | 6,451    |
| Property and equipment   | 50,447     | —     | —                    |              | 50,447   |
| Less accumulated depreciation and amortization   | (10,782)   | —     | —                    |              | (10,782) |
| Total property and equipment, net  | 39,665     | —     | —                    |              | 39,665   |
| Total assets   | \$ 640,258 | 9,100 | 254,525              | (15,779)     | 888,104  |
| <b>Liabilities and Net Assets</b>  |            |       |                      |              |          |
| Accounts payable and accrued liabilities   | \$ 13,827  | 9,100 | 1,877                |              | 24,804   |
| Interest payable   | —          | —     | 2,556                |              | 2,556    |
| Interim financing loan, guaranteed under Section 108 of the<br>Housing and Community Development Act of 1974 | —          | —     | 250,000              |              | 250,000  |
| Due to other grant programs  | 586,766    | —     | 92                   | (15,779)     | 571,079  |
| Total liabilities  | 600,593    | 9,100 | 254,525              | (15,779)     | 848,439  |
| Net assets - unrestricted  | 39,665     | —     | —                    |              | 39,665   |
| Total liabilities and net assets   | \$ 640,258 | 9,100 | 254,525              | (15,779)     | 888,104  |

See accompanying independent auditors' report.

**LOS ANGELES COMMUNITY DEVELOPMENT BANK  
(NOT A COMMERCIAL BANK) AND SUBSIDIARY**  
(A California Nonprofit Corporation)  
Combining Schedule of Activity – County of Los Angeles Grant Programs  
Year ended December 31, 1997

|                                     | <u>EDI</u> | <u>CDBG</u> | <u>Section 108<br/>Loans</u> | <u>Total</u> |
|-------------------------------------|------------|-------------|------------------------------|--------------|
| <b>Public support and revenue:</b>  |            |             |                              |              |
| Public support – grants             | \$ 361,852 | 9,100       | —                            | 370,952      |
| <b>Revenue:</b>                     |            |             |                              |              |
| Interest:                           |            |             |                              |              |
| Loans                               | —          | —           | 1,972                        | 1,972        |
| Cash and cash equivalents           | —          | —           | 1,782                        | 1,782        |
| Total revenue                       | —          | —           | 3,754                        | 3,754        |
| Total public support and revenue    | 361,852    | 9,100       | 3,754                        | 374,706      |
| <b>Expenses:</b>                    |            |             |                              |              |
| Program services:                   |            |             |                              |              |
| Interest expense                    | —          | —           | 3,845                        | 3,845        |
| Provision for loan losses           | —          | —           | 9,200                        | 9,200        |
| Other program services              | 269,765    | —           | 6,488                        | 276,253      |
| Total program services              | 269,765    | —           | 19,533                       | 289,298      |
| Supporting services:                |            |             |                              |              |
| General and administrative services | 55,253     | 9,100       | —                            | 64,353       |
| Interprogram allocation             | 15,779     | —           | (15,779)                     | —            |
| Total supporting services           | 71,032     | 9,100       | (15,779)                     | 64,353       |
| Total expenses                      | 340,797    | 9,100       | 3,754                        | 353,651      |
| Change in net assets                | 21,055     | —           | —                            | 21,055       |
| Net assets, January 1, 1997         | 18,610     | —           | —                            | 18,610       |
| Net assets, December 31, 1997       | \$ 39,665  | —           | —                            | 39,665       |

See accompanying independent auditors' report.

**LOS ANGELES COMMUNITY DEVELOPMENT BANK**  
**(NOT A COMMERCIAL BANK) AND SUBSIDIARY**  
(A California Nonprofit Corporation)

Combining Schedule of Cash Flows - County of Los Angeles Grant Programs  
Year ended December 31, 1997

|   | <u>EDI</u>       | <u>CDBG</u> | <u>Section 108<br/>Loans</u> | <u>Eliminations</u> | <u>Total</u>     |
|---|------------------|-------------|------------------------------|---------------------|------------------|
| Cash flows from operating activities:   |                  |             |                              |                     |                  |
| Loan interest and fees received   | \$ —             | —           | 3,330                        |                     | 3,330            |
| Interest on cash and cash equivalents received  | —                | —           | 1,782                        |                     | 1,782            |
| Interest paid on interim financing loan   | —                | —           | (1,289)                      |                     | (1,289)          |
| Payments to employees and others  | (218,935)        | —           | —                            |                     | (218,935)        |
| Payments to vendors and others  | 250,107          | —           | (4,519)                      |                     | 245,588          |
| Net cash provided by (used in) operating activities   | <u>31,172</u>    | <u>—</u>    | <u>(696)</u>                 |                     | <u>30,476</u>    |
| Cash flows from investing activities:   |                  |             |                              |                     |                  |
| Purchases of property and equipment   | (31,172)         | —           | —                            |                     | (31,172)         |
| Loans originated  | —                | —           | (92,000)                     |                     | (92,000)         |
| Net cash used in investing activities   | <u>(31,172)</u>  | <u>—</u>    | <u>(92,000)</u>              |                     | <u>(123,172)</u> |
| Cash flows from financing activities - proceeds from issuance of interim financing loan     | —                | —           | 250,000                      |                     | 250,000          |
| Net increase in cash and cash equivalents   | —                | —           | 157,304                      |                     | 157,304          |
| Cash and cash equivalents, January 1, 1997  | —                | —           | —                            |                     | —                |
| Cash and cash equivalents, December 31, 1997  | <u>\$ —</u>      | <u>—</u>    | <u>157,304</u>               | <u>—</u>            | <u>157,304</u>   |
| Reconciliation of change in net assets to net cash provided by operating activities:        |                  |             |                              |                     |                  |
| Change in net assets  | \$ 21,055        | —           | —                            |                     | 21,055           |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: |                  |             |                              |                     |                  |
| Depreciation  | 10,117           | —           | —                            |                     | 10,117           |
| Provision for loan losses   | —                | —           | 9,200                        |                     | 9,200            |
| Amortization of net loan fees   | —                | —           | (662)                        |                     | (662)            |
| Change in operating assets and liabilities:   |                  |             |                              |                     |                  |
| Increase in receivables:  |                  |             |                              |                     |                  |
| Grants  | (355,401)        | (9,100)     | —                            |                     | (364,501)        |
| Interest  | —                | —           | (630)                        |                     | (630)            |
| Increase in deferred loan fees, net   | —                | —           | 2,650                        |                     | 2,650            |
| Increase in prepaid expenses and other current assets                                       | (3,606)          | —           | —                            |                     | (3,606)          |
| Increase in due from other grant programs   | (6,451)          | —           | (15,779)                     | 15,779              | (6,451)          |
| Increase in accounts payable and accrued expenses   | 9,843            | 9,100       | 1,877                        |                     | 20,820           |
| Increase in interest payable  | —                | —           | 2,556                        |                     | 2,556            |
| Increase in due to other grant programs   | 355,615          | —           | 92                           | (15,779)            | 339,928          |
| Total adjustments   | <u>10,117</u>    | <u>—</u>    | <u>(696)</u>                 | <u>—</u>            | <u>9,421</u>     |
| Net cash provided by operating activities   | <u>\$ 31,172</u> | <u>—</u>    | <u>(696)</u>                 | <u>—</u>            | <u>30,476</u>    |

See accompanying independent auditors' report.

**APPENDIX D**  
**CREDIT POLICY**

**LOS ANGELES COMMUNITY DEVELOPMENT BANK**  
*(Not a Commercial Bank)*

**CREDIT POLICY**

**Revised April 1998**

**TABLE OF CONTENTS**

| <b>SUBJECT</b>                                   | <b>PAGE</b> |
|--|-------------|
| <b>Credit Administration</b>                     | <b>3</b>    |
| <b>Loan Pricing and Terms</b>                    | <b>10</b>   |
| <b>Credit Approval</b>                           | <b>11</b>   |
| <b>Business Loans</b>                            | <b>14</b>   |
| <b>Asset-Based Lending</b>                       | <b>17</b>   |
| <b>Real Estate and Real Estate-Related Loans</b> | <b>20</b>   |
| <b>Guarantees</b>                                | <b>25</b>   |
| <b>Subordination of LACDB Creditor Position</b>  | <b>26</b>   |
| <b>Co-Lending and Participations</b>             | <b>27</b>   |
| <b>Perfection of Liens</b>                       | <b>29</b>   |
| <b>Financial Statements and Analysis</b>         | <b>30</b>   |
| <b>Credit Investigation</b>                      | <b>31</b>   |
| <b>File Maintenance</b>                          | <b>33</b>   |
| <b>Loan Agreement Compliance</b>                 | <b>--</b>   |
| <b>Documentation and Audits</b>                  | <b>35</b>   |
| <b>Risk Identification System</b>                | <b>36</b>   |
| <b>Risk Asset Workouts</b>                       | <b>37</b>   |
| <b>Suspension of Interest Accrual</b>            | <b>39</b>   |

**Subject: CREDIT ADMINISTRATION****1.0 OVERVIEW**

LACDB credit policy places maximum accountability directly with LACDB management for satisfactory origination and administration of the loan and investment portfolio. Underwriting and administration shall be conducted in accordance with credit policies and credit guidelines established by LACDB management and approved by the Credit Committee and/or Board of Directors. This accountability is carried out within an administrative framework in which LACDB management, with oversight by the Credit Committee, provides:

- Credit underwriting and administration in accordance with established policies and guidelines;
- Immediate visibility to LACDB risk commitments through accurate and timely preparation of credit approval reports and problem asset reviews;
- Effective quality control through regular credit management reports;
- Visibility to and involvement in problem credit situations and corrective strategies; and
- Maintenance of appropriate reserves for losses in portfolio credits and investments.

**2.0 BOARD OF DIRECTORS**

The Board of Directors has overall authority and responsibility for loan and investment commitments by LACDB. The Board may approve commitments to an individual borrower of up to Ten Million Dollars (\$10,000,000). The Board may delegate lending and investment authority to the Credit Committee as appropriate.

**3.0 CREDIT COMMITTEE****3.1 MEMBERS**

Members of the Credit Committee shall be appointed by the Board so as to ensure the requisite depth and diversity of committee experience to properly administer the Business Loan program. Committee members shall also be selected for their knowledge of and sensitivity to business conditions of the target lending areas of LACDB. To the extent possible, the Credit Committee shall include members from Empowerment Zone areas.

The Chair of the Credit Committee shall be a member of the Board.

The Credit Committee shall be comprised of one (1) non-voting member and six (6) voting members, including:

- LACDB Board Chairman (Ex-Officio)
- Chief Executive Officer (non-voting)
- Five (5) members of the LACDB Board
- Two (2) volunteer members (non-Board)

Volunteer members should have professional credit experience, such experience to include, collectively, extensive senior level experience in each of the following areas:

- Credit Policy/Credit administration
- Small business commercial lending
- Real estate/construction lending
- Credit/risk review
- Non-profit community economic development

### 3.2 POWERS

The Credit Committee shall be a Standing Committee of the Board of Directors. The Board shall delegate to the Credit Committee authority to establish credit policies and approve lending and investment commitments by LACDB.

The maximum approval limit for the Credit Committee for all lending and investment commitments is One Million Dollars (\$1,000,000) to an individual borrower.

The Credit Committee may delegate approval authority to the Chief Executive Officer and Chief Credit Officer as appropriate.

Approval of credit policies and credit risk commitments shall require a majority vote of the entire Credit Committee.

### 3.3 MEETINGS

The Credit Committee shall meet not less than once each month.

### 3.4 DUTIES

The Credit Committee shall:

- Approve credit and investment guidelines of LACDB;
- Approve credit and investment commitments;
- Approve exceptions to credit and investment guidelines; and
- Review credit and investment portfolio quality and mix.

### 3.5 SELECTION OF COMMITTEE MEMBERS

Credit Committee members shall be approved by a majority vote of Board members after recommendation by a majority vote of Credit Committee members

Candidates for committee membership shall be presented to the committee for consideration. Review of candidate qualifications shall include:

- Depth and breath of relevant experiences needed for the committee's overall credit knowledge and balance;
- Knowledge and understanding of the needs and interests of local community residents and businesses;
- Personal commitment to participate creatively in efforts to structure and approve small business financing; and
- Availability for active participation in Credit Committee affairs.

Committee members may be removed by a majority vote of Board members after recommendation by a majority vote of Credit Committee members.

#### 4.0 LACBD MANAGEMENT

LACDB Management is responsible for the administration of credit underwriting and management of the lending, venture capital financing, technical assistance and grant programs of the LACDB in accordance with the established credit philosophy, policies and procedures of the Board of Directors, as well as regulatory requirements of various external agencies. Specific accountabilities include:

- Development and implementation of policies and procedures as approved by the Credit Committee and Board of Directors.
- Management oversight of relationships with and performances of LACDB technical assistance providers, financial intermediaries, and loan/venture capital participants and co-lenders.
- Management and training of the LACDB credit operations staff.
- Negotiation and structure of credit and venture capital investment terms and conditions with/through financial intermediaries and participants/co-lenders.
- Presentation and support of credit and venture capital investment recommendations to the Credit Committee.
- Supervision of credit and investment underwriting and portfolio management by the credit operations staff.
- Developing and administering loan administration policies and procedures for:
  - Loan accounting for credit/investment advances and payments; and interest accrual and collection; and
  - Documentation control and safekeeping.

Regular program, portfolio status and regulatory compliance reporting to:

- LACDB Board of Directors (including Board committees);
  - U.S. Dept. of Housing and Urban Development (HUD);
  - City of Los Angeles; and
  - County of Los Angeles.
- 
- Monitor and maintain satisfactory portfolio quality through identification and quantification of risk in individual credits/investments and regular reviews of risk underwriting and administration.
  - Establish and maintain appropriate reserves for losses in portfolio credits and investments.

## 5.0 LOAN ELIGIBILITY REQUIREMENTS

### 5.1 PUBLIC BENEFIT

Credit extensions must be intended to provide a public benefit. The LACDB will finance businesses to create or retain jobs. LACDB financing may not exceed \$35,000 per job created or retained.

In some cases, LACDB financing must seek to provide goods or services to a community not otherwise available; or be intended to help to stabilize or revitalize an area in the Empowerment Zone.

#### 5.1.1 For LACDB Program Activities located inside the Empowerment Zone (EZ):

- The assisted economic development activity (loan applicant) must be located within the EZ or within a one block radius of the outer boundaries of the EZ; and
- The jobs to be created or retained by the assisted economic development activity (loan applicant) are/will be held by or made available to residents of the EZ.

Program activities located within the EZ, but not qualifying above, shall be for the purpose of promoting goods or services to residents of the EZ or shall be funded by LACDB with the intent that the activity will help to stabilize or revitalize an area in the EZ, and shall be consistent with the requirements of Title 24, Code of Federal Regulations, Section 570.209(b)(3), including but not limited to the requirement that the amount of funds made directly available to the activity does not exceed \$1,000 per low- or moderate-income person residing in the area to be served by the activity.

#### 5.1.2 For LACDB Program Activities located outside of the EZ:

- The assisted economic development activity (loan applicant) must be located outside of the EZ, but within one (1) mile of the outer boundaries of the EZ; and
- The assisted economic development activity (loan applicant) must create jobs, 51 percent of which are held by or made available to residents of the EZ.

#### 5.1.3 For all other LACDB Program Activities not meeting the criteria of 5.1.1 or 5.1.2 above, including Program Activities located outside of the EZ, but within one block radius of the outer boundaries of the EZ which provide goods or services utilized by residents of the EZ, LACDB, through City or County, as appropriate, will obtain HUD's prior concurrence that such activity meets a national objective criterion prior to the obligation of funds for the activity.

#### 5.1.4 For an LACDB Program Activity that retains jobs, LACDB will document that the jobs would actually be lost without the assistance of EDI Grants or Section 108 Loan Guarantees and that either or both of the following conditions apply with respect to at least 51% of the jobs at the time such assistance is provided:

- The job is known to be held by a low or moderate income person; or the job can reasonably be expected to turn over within the following two years and that steps will be taken to ensure that it will be filled by, or made available to, a low or moderate income person upon turnover.

## 5.2 PRODUCTIVE PURPOSE

Credit extensions must be intended to serve productive purposes:

- 5.2.1 Business loans may finance expansion of existing and acquisition of new plant facilities or plant relocations to eligible areas, business acquisitions, franchise acquisitions and expansion, cooperative startup and expansions, employee ownership programs, equipment purchases, and permanent working capital.
- 5.2.2 Real estate loans may finance projects that not only create or retain jobs, but also provide goods and services not otherwise available and eliminate slums and blight in the LACDB eligible areas; to finance projects that target under utilized property development, vacant lot revitalization, rebuilding and rehabilitation projects and mixed use projects; or to finance the acquisition of property and plant facilities for development into incubator space and industrial parks; to finance land acquisition, demolition, site development and cleanup and pre-development expenses.
- 5.2.3 Speculative investments (e.g., purchase of stock or real estate with loan repayment dependent upon resale), financial intermediaries (mortgage companies, check cashing), etc. not considered productive purposes.
- 5.2.4 Credit or investment commitments for liquor stores, pornography businesses, etc. are prohibited.

## 6.0 PROHIBITED TRANSACTIONS

LACDB funds may not be provided for the following purposes:

- 6.1 Finance facilities or equipment for political purposes or to engage in other partisan political activities such as candidate forums, voter transportation, or voter registration.
- 6.2 Construct new permanent residential structures or subsidize or assist such new construction. (Activities in support-of the development of low or moderate income housing, including clearance, site assemblage, provisions of site improvements and provision of public improvements and certain housing pre-construction costs set forth in 24 C.F.R. §570.206(g), do not constitute activities to subsidize or assist new residential construction.).
- 6.3 Assist buildings or portions thereof used for the general conduct of government as defined at 24 C.F.R. §570.3.

- 6.4 To pay for expenses required to carry out the regular responsibilities of a unit of general local government, except as otherwise specifically authorized in Circular A-87 of the United States Office of Management and Budget.

## **7.0 CREDIT ELSEWHERE TEST**

Applicants for financing must be able to demonstrate an inability to qualify for or obtain a loan from commercial banking sources on the same terms and conditions that can be obtained from the LACDB.

## **8.0 LIFE OF THE BUSINESS**

Applicants for LACDB loans should have been in business for at least one year. Exceptions can be made for those owners that can demonstrate extensive past management and technical experience in the industry.

## **9.0 EQUITY REQUIREMENTS**

Businesses receiving assistance shall generally be required to have a positive net worth. LACDB management shall establish guidelines, subject to Credit Committee approval, under which exceptions to equity requirements may be made.

## **10.0 PROHIBITED CREDIT TRANSACTIONS**

It is the policy of LACDB that its credit and investment services are available to serve the legitimate and qualifying needs of business applicants on an equitable basis. Credit extensions are intended to serve productive purposes and to provide a public benefit, especially job creation, to residents of the Empowerment Zone. Approval of financing requests that are lacking in productive purpose and/or public benefit is prohibited.

## **11.0 CONFLICT OF INTEREST**

Credit approvals and concessions of rate and other terms shall be based solely on the applicant's credit-worthiness and overall business relationship with LACDB. Real or perceived conflicts of interest must be avoided at all times.

- 11.1 Subject to any waivers or exceptions provided by HUD, LACDB shall comply with and cause each of its Financial Intermediaries to comply with the HUD conflict of interest rules as set forth in 24 C.F.R. §570.611.

## **12.0 CONFIDENTIALITY OF INFORMATION**

Confidential Information includes all information about LACDB, its borrowers and other parties that is sensitive; that is, information that is not available to the general public. LACDB policies regarding Confidential Information shall apply to all LACDB employees, Board members and volunteer workers.

## 12.1 CONFIDENTIAL INFORMATION ABOUT BORROWERS

LACDB borrowers and potential borrowers must be assured that the sensitive information they entrust to LACDB will be handled with integrity and discretion.

Confidential Information about LACDB borrowers consists of sensitive information furnished to LACDB by a borrower in the course of an actual or prospective business relationship; LACDB internally generated reports based on such information; and information relating to borrowings. It includes such items as borrower financial information, nonpublic information about business plans and LACDB's assessment of the creditworthiness of a borrower.

All information about any LACDB borrowers and all information received from any borrower shall be presumed to be Confidential Information unless the contrary is clear.

## 12.2 CONFIDENTIAL INFORMATION ABOUT LACDB

Confidential Information about LACDB shall be carefully protected. This information consists generally of LACDB financial information that has not been publicly disclosed; LACDB business plans, and computer systems or software, LACDB audit information (including reports of regulatory agencies), etc.

LACDB employees, Board members and volunteers shall be required to decline to comment about matters that could involve nonpublic information about LACDB unless previously given responsibility for replying to such inquiries. Inquiries from the media must be referred to designated LACDB representatives. Confidential Information shall not be communicated to other LACDB employees, Board members or volunteers, except to the extent they need to know the information to fulfill their job responsibilities and they have no responsibilities or duties that are likely to give rise to a conflict of interest or misuse of the information.

## 12.3 CREDIT INQUIRIES

The exchange of credit information with other lenders and trade suppliers is a courtesy extended within the lending industry. Although not a member of the Robert Morris Associates (RMA), it is the policy of LACDB to adopt the RMA "Code of Ethics for the Exchange of Credit Information" as the basis for credit investigations and reporting regarding current and prospective LACDB borrowers. In responding to credit inquiries about a current or prospective borrower, employees shall be required to adhere to the RMA Code of Ethics and procedures outlined in the Credit Investigation section of the LACDB Credit Guidelines.

**Subject:      LOAN PRICING AND TERMS****1.0            LOAN PRICING**

LACDB management shall establish interest rates and fees for LACDB credit products and services subject to approval by the Credit Committee. Pricing shall be based upon prevailing market conditions and shall reflect budget and cost of funds requirements, credit risk and anticipated losses.

The above pricing standard notwithstanding, LACDB management shall attempt to be flexible in the pricing and payment structure of credit products and services to accommodate circumstances of business borrowers.

**Subject: CREDIT APPROVAL****1.0 OVERVIEW**

Ultimate authority for approval of LACDB commitments of loans and investments shall be held by the Board of Directors. The Board shall delegate credit authority and oversight for oversight of LACDB management's administration of the credit process to the Credit Committee.

**2.0 CREDIT APPROVAL STRUCTURE**

Primary responsibility for credit approval and oversight of LACDB management's administration of the credit process rests with the Credit Committee. The Credit Committee may delegate approval authority to LACDB management as appropriate.

Credit approval procedures apply to all new and/or renewed risk commitments. Approval procedures shall also apply to amendments or modifications to terms of existing loan agreements:

- Business term loans
- Real estate loans
- Guarantees of credit extensions to the borrower by other financial institutions
- Venture capital investments

Total projected LACDB cost/obligation to maturity of commitments for:

- Interest rate buydowns
- Loan loss reserves
- Point buydowns

Approval requirements shall be determined by the aggregate LACDB-approved commitments to each borrowing relationship. Prior to commitment, appropriate approval(s) shall be obtained for each new or renewed extension. All credit approvals shall be evidenced by signature(s) of authorized lending officers and/or members of the Credit Committee on the Credit Approval Report.

**3.0 CREDIT APPROVAL LIMITS**

The ultimate authority to issue credit and investment commitments on behalf of LACDB rests with the Credit Committee. Specific approval authority may be delegated to individual lending officers on the basis of:

- Lending experience and ability
- Limit amounts needed to perform the individual's lending functions and administer appropriate customer services

### **3.1 BOARD OF DIRECTORS**

The Board of Directors shall have overall authority and responsibility for loan and investment commitments by LACDB. The Board may approve commitments to an individual borrower of up to Ten Million Dollars (\$10,000,000). The Board shall delegate lending and investment authority to the Credit Committee as appropriate.

### **3.2 CREDIT COMMITTEE**

The maximum approval limit for the Credit Committee for all lending and investment commitments is \$5,000,000 to an individual borrower.

The Credit Committee may delegate approval authority to the Chief Executive Officer and Chief Credit Officer as appropriate.

Approval of credit policies and credit risk commitments shall require a majority vote of the entire Credit Committee.

### **3.3 CHIEF EXECUTIVE OFFICER**

Maximum approval limit for the Chief Executive Officer for new and renewal credit commitments shall be established at the discretion of the Credit Committee.

### **3.4 CHIEF CREDIT OFFICER**

Maximum approval limit for the Chief Credit Officer for new and renewal credit commitments shall be established at the discretion of the Credit Committee.

### **3.5 OTHER STAFF MEMBERS**

Delegation of lending authority to other staff members shall require approval of the Credit Committee.

### **3.6 FINANCIAL INTERMEDIARIES**

Maximum approval limits for Financial Intermediaries for new and renewal commitments shall be established by the Credit Committee for:

3.6.1 Micro Loans

3.6.2 Business Loans

**4.0 APPROVAL REVIEW**

All credit and investment risk commitments approved by other than a majority of Credit Committee members shall be presented to the Credit Committee for approval review. Presentation for approval review shall be made by the Chief Credit Officer at the first scheduled committee meeting after credit approval.

**5.0 MAXIMUM PERMISSIBLE COMMITMENT TO A SINGLE BORROWING RELATIONSHIP**

The maximum permissible aggregate loan and/or investment commitments by LACDB to a single borrowing relationship is Ten Million Dollars (\$10,000,000). Aggregate commitments to a LACDB borrowing relationship shall include:

- Direct obligations of the business, plus
- Guarantor obligations of shareholders/partners (having at least 20% ownership interest) for loan and/or investments to other LACDB borrower businesses.

**Subject: BUSINESS LOANS****1.0 OVERVIEW**

Given the unique nature and purpose of the LACDB, financing policies and underwriting criteria need to be flexible and adaptable to accommodate a wide variety of situations. Accordingly, the following general policies and criteria will guide the overall administration of LACDB lending activities (whether directly through the LACDB or indirectly through LACDB financial intermediaries).

Derivations from these policies and guidelines shall require approval of the Credit Committee. Financial structures and/or terms and conditions that may be required to meet the needs of a specific transaction which fall outside the general guidelines contained herein may be permitted with the approval of the Credit Committee.

Personal guarantee(s) must be required from all individuals and/or business entities which own 20% or more of the borrowing entity.

**2.0 BUSINESS ASSESSMENT**

Eligible LACDB borrowers should have a demonstrated history of clear credit or reasonable explanations for derogatory credit. Any prior default on an obligation to the federal government is sufficient reason for declining a loan request.

Management's conduct and practices shall be used to evaluate potential loan candidates and shall be factored into an evaluation as to likelihood of repayment.

Often financing requests may require restructuring and/or refinancing of existing indebtedness relief from existing creditors. Thorough analysis is required to determine the necessity and feasibility of debt restructuring and/or refinancing.

The LACDB may determine the level of technical assistance needed by its borrowers to ensure the success of the project. Technical assistance may be required for a loan or investment made by the LACDB.

**3.0 COLLATERAL SUPPORT**

In general, financing provided by LACDB shall be secured by a first lien position against the best available collateral (including government contracts). Conditions for subordination of LACDB credit position are outlined in the Credit Policies Manual (see "Subordination of LACDB Creditor Position"). Security for assets financed should be evidenced by recorded liens.

Lack of satisfactory collateral alone may not be sufficient reason to decline a loan request where alternative support is available (e.g., third-party pledge of outside collateral may be acceptable where circumstances merit such a pledge). In accordance with real estate industry standards, a satisfactory Member of Appraisal Institute (MAI) appraisal and Phase I environmental study shall be required whenever the LACDB anticipates filing a lien on or acquiring real property.

#### 4.0 REPAYMENT STANDARDS

Borrowers must demonstrate satisfactory primary and satisfactory sources of repayment. Generally, the primary repayment source for financing provided by LACDB shall be operating cash flow. Incumbent upon the loan officer, therefore, is the responsibility for thorough cash flow analysis in the underwriting process.

Loan terms shall be structured to include requirements for regular and current financial reporting and updates to cash flow projections for regular monitoring of cash flow performance of borrowers. Detailed requirements for cash flow analysis are contained in the Credit Guidelines Manual (Financial Statements and Analysis).

Loans shall be structured to encourage refinancing and permit the company to grow in the future. Specifically, loan structure and terms should be designed with the goal of assisting the business to qualify for commercial bank financing with normal, conforming loan terms by the maturity of the LACDB loan.

Loan terms should normally be geared to the useful life of the asset to be financed or to the borrower's repayment ability. Shorter-term loans should be favored over long-term debt, except in cases where it is demonstrated that a longer term is required to service debt from projected cash flow.

#### 5.0 AMORTIZATION

Amortization schedules shall be flexible to accommodate a borrower's ability to repay; however, loans must be fully amortized over their term. The standard maximum terms for capital assets shall be 10 to 15 years, for working capital, 5 to 7 years, and for real estate, 20 years.

#### 6.0 BUSINESS EQUITY

- 6.1 Businesses receiving assistance are required to have a positive net worth. Exceptions may be approved by the Credit Committee for circumstances where financing facilitated by LACDB results in recapitalization of the business (e.g., discounted purchase of pre-existing debt).
- 6.2 Businesses receiving assistance must demonstrate cash equity investment by the principals. Exceptions may be granted if:

- The LACDB financing triggers new cash equity investment at or before the time of loan disbursement;
- Business principals have sufficient outside collateral pledged to the transaction to demonstrate "at risk" investment; and/or
- Sufficient existing debt shall subordinate or convert to equity for the term of the LACDB loan.

The Credit Committee shall establish minimum equity investment requirements for LACDB.

## 7.0 FINANCIAL RATIOS

In general, business loan applicants are expected to have a positive net worth and maintain adequate liquidity, leverage and debt service capacity. Many businesses may require financial restructuring or debt relief from creditors in order to become loan candidates. All eligible businesses shall be evaluated to determine whether their debt can be restructured. Several key financial indicators shall be used as appropriate to evaluate a business' ability to repay LACDB loans:

- |                          |                            |
|--------------------------|----------------------------|
| - Equity:                | <b>Tangible Net Worth</b>  |
| - Leverage:              | <b>Debt-to-Worth Ratio</b> |
| - Liquidity:             | <b>Current Ratio</b>       |
| - Debt service capacity: | <b>Debt Coverage Ratio</b> |

In secured personal property financings, the adequacy of collateral support for LACDB loans shall be measured quantitatively by **Loan-to Value Ratio**.

Real estate collateral support shall include:

- MAI appraisals
- Phase I and/or II environmental studies.

Other measurements of current or projected business operating and/or financial strength shall be utilized as appropriate.

**Subject: ASSET-BASED LENDING****1.0 OVERVIEW**

The operations of new or quickly expanding small businesses are often characterized by limited track records, high debt and/or large financing needs. As a result, these businesses may lack satisfactory net worth, leverage and profitability trends to support "balance sheet" financing. Even long-established businesses may have suffered from operating problems or simply be in need of more money than their bankers are willing to lend. Financing of these companies is, therefore, often accomplished on the strength of the collateral support of specific assets rather than overall balance sheet and profitability trends, and is generally referred to as "asset-based lending. Asset-based lending is typically used to finance accounts receivable, inventory and equipment. LACDB asset-based lending shall, generally, be limited to financing equipment, accounts receivable and inventory.

**2.0 PARTICIPATION CREDITS WITH ANOTHER LENDER AS AGENT**

Because asset-based lending requires closer ongoing credit monitoring and control, such financing is available from LACDB generally as a participant with a commercial bank with satisfactory capability and staff support to properly underwrite and administer such facilities.

The loan officer must be satisfied that LACDB's interest in the collateral will be adequately protected at all times. In addition to the normal credit/collateral risks, the loan officer must ensure adequate capability to:

- Properly administer and monitor the collateral
- Evaluate the borrower's books, records and accounting procedures

**3.0 ACCOUNTS RECEIVABLE FINANCING**

Accounts receivable financing is the most popular collateral-based lending tool, since receivables are the most easily liquidated security. If a company's need surpasses its outstanding accounts, however, an inventory loan may be added to expand the line of credit.

Accounts receivable financing is good for companies engaged in manufacturing or wholesaling of a product. Other businesses that render a service to commercial concerns may also be acceptable.

Accounts receivable financing involves lending with full recourse to the borrower secured by an assignment of the receivable. Loan advances secured by assignment of inventory may be considered. Receivable financing provides working capital to businesses which:

- Have need for perpetual revolving credit, are in a growth cycle and unable to qualify for unsecured credit
- Show weakened financial ratios that preclude extension of unsecured credit.

### 3.1 ADVANCE PERCENTAGE AGAINST ACCOUNTS RECEIVABLE

For receivables of acceptable quality, the Credit Committee shall establish LACDB maximum advance percentages. Advance percentages shall be based on the status of the receivables, as reflected by the current aging reports and curtailed to provide an adequate margin of safety for the LACDB.

### 3.2 COLLATERAL QUALITY

Accounts receivable/inventory financing depends greatly upon the underlying value of the collateral, especially since this type of borrowing involves more highly leveraged companies.

The amount and status of the collateral may change dramatically over a short period of time. LACDB management shall establish appropriate underwriting guidelines and administrative procedures to define and monitor the quality of the accounts receivable and inventory.

## 4.0 INVENTORY FINANCING

Under certain circumstances, advances may be made against inventory in addition to advances against accounts receivable. Inventory advances cover specific, periodic working capital needs of the business. The use of inventory advances on a permanent basis should be avoided. Inadequate borrower capitalization should be remedied through other means.

## 5.0 FINANCIAL ANALYSIS

LACDB management shall establish appropriate underwriting guidelines for thorough financial analysis of asset-based credit facilities.

### 5.1 FINANCIAL INFORMATION

The quality of the financial statements is critical to accounts receivable financing because they provide:

- A historical perspective of the reasons behind the financing;
- An indication of the quality of financial reporting which will be available over a period of time;
- The basis for cash flow analysis;
- A benchmark so subsequent changes can be measured;
- The basis for a continuing financial dialogue with the borrower.

All accounts receivable borrowers should retain the services of an independent CPA for on-going audit support and preparation of fiscal year-end financial statements. The assigned loan officer determines if the accountant is acceptable to LACDB.

Financial statements shall be required on at least an annual basis, more often if financial trends warrant. Interim financial statements should include agings of accounts receivable and accounts payable. Timely receipt of financial statements is essential to allow the lending officer to monitor the borrower's operations and financial condition.

**Subject: REAL ESTATE AND REAL ESTATE-RELATED LOANS****1.0 REAL ESTATE LOANS**

A real estate loan is a term loan on a fully completed and substantially occupied income producing property (stabilized operating level at least 75% occupancy). All real estate loans shall be secured only by the property financed. Real estate loans are not commercial loans, and shall be grouped separately from other LACDB loans for financial reporting and calculation of loss provisions. Construction loans are converted from commercial loans to permanent real estate loans upon completion and occupancy.

**2.0 REAL ESTATE-RELATED LOANS**

Real estate-related loans are commercial loans for acquisition, pre-development development, construction and/or rehabilitation of real estate property. Unlike other commercial loans, repayment is primarily dependent upon ultimate sale or refinance of the completed real estate property. Unlike real estate loans, real estate-related loans finance incomplete projects not yet producing sufficient income for debt service. Property value is based upon projected income after completion.

Successful underwriting and project supervision often requires specialized technical experience in several areas. It is LACDB policy that financing for construction and development should generally be provided in participation with an experienced commercial bank (as lead lender) which has adequate support staff for project supervision.

Each project to be considered for LACDB financing shall be carefully evaluated for acceptability in each of the following areas:

- Sponsorship. Sponsorship is the proven ability of the borrower to develop the intended project on time, within the planned budget and to market it profitably. Credit Approval Reports must show that a borrower team is comprised of proven professionals experienced in the various disciplines involved in developing a successful project. Members of the team should have worked together on previous projects or have demonstrated themselves in the type of project intended. Secondary financial support to be provided by the borrower must be thoroughly analyzed and it should be clear that the borrower has the capacity to perform should that support be required.
- Project Cost/Profitability/Equity Analysis. Credit Approval Reports must evidence independent, professional evaluation of the proposed project's cost. Pro forma evaluation of the profitability must be sufficient to motivate the borrower to carry the project to completion. Finally, it is essential that the borrower have sufficient equity in the project to absorb the remaining risks in the project and to provide additional incentive for project completion.

- Project Feasibility. Credit Approval Reports supporting construction projects to be submitted for approval must show an independent evaluation of the economic feasibility of the project. The evaluation must show a demonstrated market demand at a competitive rate for similar products, and must have considered the impact of current and proposed competition. Location and design must support the functionality of the proposed use. Where necessary, professional market analysis performed independently of the borrower should be provided for unusual or specialized projects. LACDB management shall develop specific lending/investment guidelines for each major project type offered.

### **3.0 TYPES OF REAL ESTATE-RELATED LOANS**

#### **3.1 LAND ACQUISITION**

Land acquisition financing should be limited to land holdings, fully entitled and positioned for near term development by the borrower or a related entity. Loans for speculative land acquisition (e.g., for resale to the ultimate developer without improvement) will be approved on an exception basis by the Credit Committee and only when exceptionally well supported by repayment sources other than the property itself.

#### **3.2 PREDEVELOPMENT (GAP) LOANS**

The predevelopment loan funds a gap that normally represents the equity in a project. This facility allows the developer to proceed with a project before construction financing has been arranged. Often, a predevelopment loan may be required to supplement borrower equity in the satisfaction of requirements for construction financing.

Approval of predevelopment financing shall require:

- Verification of significant cash equity investment by the borrower
- Detailed analysis of project feasibility
- Thorough and satisfactory review of expected probability and timing for issuance of required approvals, permits and variances (see Entitlement Risk, para. 4.2 below).

When used, it is critical that strong secondary sources of repayment, including guarantors, are available. Too often a project is delayed or modified which can reduce the amount of refinancing proceeds. Close monitoring of progress toward meeting conditions for refinancing is critical and facilities shall have maturities not exceeding two years.

#### **3.3 TEMPORARY CONSTRUCTION AND DEVELOPMENT LOANS**

Construction and development loans finance onsite and offsite land improvements and building improvements to real estate property. Construction and development

loans are commercial loans with maturities generally in excess of 12 months and usually have a definite and scheduled repayment source, usually a permanent takeout real estate loan. Completion on time and within budget is of paramount importance in construction lending.

#### 4.0 RISK AND RISK CONTROLS

Loan repayment is often based largely on the borrower's projected ability to complete the project in a timely manner and within the established cost budget, and the economic success of the project when completed. Real estate-related loans require particular attention to underwriting standards and close monitoring until repaid. There are four areas of risk:

##### 4.1 SPONSORSHIP RISK

Developers must have experience evidenced by successfully completed projects. Because developers typically have substantial capital tied up in various projects, liquidity to fund equity for new projects is often very limited.

The important aspect of the developer's expertise is an ability to manage growth and be selective in pursuing projects that have high levels of feasibility. Successful teams should have a leader with the ability to coordinate and lead the various disciplines involved in real estate development.

##### 4.2 ENTITLEMENT RISK

All projects require some government approval, even if it is simply the issuing of a building permit by the Department of Building and Safety. Many of these approvals are routine and the developer is entitled to them, subject to complying with the appropriate regulations or codes. The balance of the required approvals, by their very nature, is discretionary. These may consist of the following:

- Building and safety variances;
- Zoning variances;
- Specific plan or general plan variances;
- Approval by design review committees;
- Obtaining specific plan approval.

Some of these approvals or variances may be obtained through an administrative process; others will require a public hearing. LACDB financing commitments shall be approved subject to thorough and satisfactory review of expected probability and timing for issuance of required approvals, permits and variances.

##### 4.3 MARKETING RISK

Reasonable sale or leasing risk shall be required for LACDB participation in real estate-related projects. In establishing an interest reserve, underwriting should be based on conservative lease-up or absorption assumptions. Analysis of project

feasibility will consider all current and future projects planned for the development area. LACDB management shall establish appropriate underwriting criteria (pre-leasing, interest reserve, etc.) for effective monitoring and control of marketing risk.

#### **4.4 CONSTRUCTION RISK**

Generally, construction risk is thought of as the risk that a project's actual hard or direct construction costs will exceed the budget. LACDB policy is that the borrower/developer should generally provide a completion guarantee to cover this risk.

The risk of construction cost overruns is more complex than most other risk in LACDB lending. LACDB management shall establish appropriate monitoring and control procedures by which the loan officer can identify and control cost increases.

### **5.0 REAL ESTATE APPRAISALS**

For loans secured by real property, the most significant risks, after assessing the ability of the obligor to repay the loan, are determining an accurate value of the real property collateral, and having a current understanding of market factors affecting the real property collateral. Obtaining a valid appraisal on the real property and identifying associated market risks mitigates these risks.

All LACDB real estate or real estate-related loans shall be secured by real property must be appraised by a qualified, independent fee appraiser or staff appraiser of the participating financial institution who is competent and knowledgeable of relevant markets. The Credit Committee shall establish maximum loan-to-value parameters for real estate lending by LACDB.

A lien recorded against real estate, which is not the primary loan repayment source, or collateral support should be taken as an "abundance of caution" and shall not require an appraisal.

The Comptroller of the Currency, Federal Deposit Insurance Corporation, and the Board of Governors of the Federal Reserve System have jointly issued uniform guidelines for proper appraisals. LACDB policy for appraisal procedures shall require use of these guidelines as the minimum standard of compliance.

### **6.0 FLOOD HAZARD INSURANCE**

The National Flood Insurance Program is the outgrowth of the National Flood Insurance Act of 1968 and the Flood Disaster Protection Act of 1973. The purpose of the program is to reduce the disastrous effects of annual flood losses by requiring communities to develop and implement plans for local flood plain management. These acts offer flood hazard insurance at subsidized rates.

Flood insurance shall be required as a condition for LACDB financing if the property is located in both of the following:

- An area designated by the secretary of the Department of Housing and Urban Development (HUD) as a special flood area
- A community participating in the National Flood Insurance Program

**Subject: GUARANTEES****1.0 OVERVIEW**

Personal guarantee(s) must be required from all individuals and/or business entities which own 20% or more of the borrowing entity. Guarantee of full payment of loan principal and interest is required. Subject to Credit Committee approval, LACDB management shall establish guidelines for requiring appropriate guarantees for LACDB credit circumstances.

**Subject: SUBORDINATION OF LACDB CREDITOR POSITION****1.0 OVERVIEW**

Generally, LACDB prefers to co-lend or participate with acceptable financial institutions in credit extensions to borrowers on a *pari passu* basis (i.e., same creditor class, with pro rata sharing in all principal advances and repayments as well as interest payments and collateral).

**2.0 SUBORDINATION BY LACDB**

Under certain circumstances, LACDB may agree to subordinate its creditor position to incen acceptable financial institutions (commercial banks, savings and loans, credit unions, bank-owned community development corporations, etc.) to provide financing to local small and medium-sized businesses. The primary circumstance warranting consideration of LACDB subordination is insufficient borrower equity to support additional debt financing.

Subordination of LACDB's creditor position may be considered where additional support is required to incen extension of new or restructured credit to a borrower by a co-lending financial institution.

Justification and terms for proposed loan subordination by LACDB must be presented in the Credit Approval Report and approved by the Credit Committee.

**3.0 SUBORDINATION TERMS**

The maximum commitment of subordinate LACDB financing shall be the lesser of Two Million Five Hundred Thousand Dollars (\$2,500,000) or 50 percent of the senior loan.

**Subject: CO-LENDING AND PARTICIPATIONS****1.0 OVERVIEW**

It is the policy of LACDB to leverage its loans and investments by co-lending or participating with other financial institutions. All loans and investments must comply with LACDB's eligibility and underwriting standards and must meet HUD federal program requirements. In addition, all loans must comply with applicable provisions of the California Finance Lenders' Law and regulations promulgated thereunder.

In general, loan agreements shall be structured to encourage refinancing of the LACDB debt and permit the company to grow in the future. Also, to provide liquidity, the LACDB will structure its loans and other transactions so that they can be sold to qualified buyers.

Joint loans or investments with acceptable financial institutions may be structured as co-lending or participation transactions. In either method of transaction structure, the LACDB may agree to accept *pari passu* or subordinate creditor or investor status as appropriate for the for the transaction risk.

Co-lending and participant relationships with other financial institutions will be subject to restrictions imposed upon LACDB as a California-licensed finance lender. In addition, the terms and conditions of loans originated or purchased by the LACDB or as to which LACDB is a participant or co-lender may be subject to limitations imposed upon California-licensed finance lenders, such as limitations on fees charged, loan maturity, security and other matters.

**2.0 JOINT LENDING STRUCTURES****2.1 CO-LENDING**

Co-lending involves direct credit extensions to a borrower by two or more lenders under:

- Separate loan agreements; or
- A common loan agreement with one lender as "agent".

LACDB policy requires an intercreditor agreement when lending under separate agreements with other financial institutions.

When co-lending under a common agreement with other lender(s), each lender is a direct signer of the agreement, beneficiary under note and collateral documentation. Each lender has *pari passu* and pro rata status in principal and interest payments and collateral proceeds. Lender relationships are governed by the intercreditor agreement.

## 2.2 PARTICIPATION

A loan participation is an arrangement by which a lender makes a loan to a borrower and then sells all or a portion of it to one or more participating lenders. The lead participant normally services the credit. Other participant(s) usually have little or no direct contact with the borrower.

In a participation, all loan documentation is drafted in the name of the lead participant. Other participant(s) are indirect lenders and their share of the participated loan is evidenced by a Participation Certificate that assigns an undivided interest in the loan and any related collateral.

LACDB policy requires a participation agreement to govern the relationship among lenders when lending under a loan participation arrangement with other financial institutions.

## 3.0 LACDB DUE DILIGENCE IN LOAN ANALYSIS AND STRUCTURE

Loans in which LACDB is to be a co-lender or participant shall be the type and quality that LACDB would make directly. Loan approval and credit administration requirements are the same as for a direct loan.

The LACDB loan officer must analyze the financing request in the same manner as a request for direct credit, i.e., perform an independent credit investigation and apply LACDB's criteria for the same type of credit. The loan officer must not rely on a loan analysis performed by the co-lender/participant. Such information may only be included as contributing factors in the loan officer's independent analysis.

**Subject: PERFECTION OF LIENS****1.0 GENERAL INFORMATION**

LACDB policy with respect to all secured loans, is that the lien or security interest be perfected in an appropriate manner given the nature of the collateral and the applicable law.

**2.0 LOANS SECURED BY PERSONAL PROPERTY**

With respect to collateral consisting of interests in personal property, filing of a financing statement in the appropriate filing office, possession of the collateral, or another form of perfection, depending on the nature of the collateral and applicable law, will be required. It is the policy of LACDB to perfect its security interest in personal property (including equipment, fixtures, accounts receivable and inventory) by filing a Uniform Commercial Code - Financing Statement (UCC-1). Detailed guidance on the appropriate method of perfection is given in LACDB Credit Guidelines.

**3.0 LOANS SECURED BY REAL ESTATE**

With respect to collateral consisting of interests in real estate (including leasehold interests), at a minimum, a mortgage or deed of trust and an assignment of rents and leases must be recorded in the appropriate recording office.

**Subject: FINANCIAL STATEMENTS AND ANALYSIS****1.0 OVERVIEW**

Financial statements provide the loan officer with important information on which to evaluate historical and projected performance of the borrower. To have a logical basis for evaluating business trends, it is important to obtain complete statements covering the last three fiscal yearend periods (or the number of years of business operation) and the latest interim periods. Consideration must also be given to other credit factors, using experience, discretion and sound judgment for proper interpretation of financial statement information.

LACDB management shall require that business loan applicants provide historical and projected financial information for thorough analysis of business financial condition and repayment prospects. Loan underwriting guidelines shall include required standards for complete and accurate financial statements and income tax returns from the business and its principals.

LACDB underwriting guidelines shall include requirements for thorough written analysis of financial information supporting all credit recommendations.

**2.0 TYPES OF FINANCIAL STATEMENTS**

Business borrowers should furnish the LACDB with financial statements prepared by qualified accountants, preferably certified public accountants, whenever possible.

**3.0 CASH FLOW ANALYSIS**

Businesses shall be required to provide satisfactory projections of operating cash flows that demonstrate the business' ability to:

- a. Achieve planned business and job growth; and
- b. Service all debt, including proposed LACDB borrowings.

**Subject: CREDIT INVESTIGATION****1.0 GENERAL**

It is LACDB's policy to investigate the credit standing of all credit applicants, regardless of the type of credit or venture capital arrangement anticipated. It is essential that the loan officer become as familiar as possible with the credit standing and other characteristics of the borrower as well as guarantors.

Appropriate steps should be taken to confirm the identities of businesses and individual guarantors.

Periodic checking through credit agency or industry report shall be conducted as appropriate during the term of LACDB's credit extension as a means of keeping informed of any developments that may affect the quality of a risk transaction and the creditworthiness of a borrower.

**2.0 RMA CODE OF ETHICS**

The Robert Morris Associates (RMA) is an organization of commercial bank lending officers dedicated to encouraging more liberal credit information exchange among commercial banks. RMA developed a "Code of Ethics for the Exchange of Credit Information".

Although not a member of RMA, it is the policy of LACDB to adopt the RMA "Code of Ethics for the Exchange of Credit Information" as the basis for credit investigations and reporting regarding current and prospective LACDB borrowers. The code includes the following principles.

**2.1 ARTICLE 1**

There are two cardinal principles in the exchange of credit information:

- Confidentiality and accuracy of inquiries
- Confidentiality of sources, which must not be disclosed without their permission

**2.2 ARTICLE 2**

Each inquiry should specifically indicate its purpose and the amount involved.

**2.3 ARTICLE 3**

Responses should be prompt and should disclose sufficient material facts commensurate with the purpose and amount of the inquiry. Give specific questions careful and frank replies.

**2.4 ARTICLE 4**

When soliciting a borrowing relationship with a subject, **DO NOT** make an inquiry to a existing lender without frankly disclosing that the subject of the inquiry is a prospect. Reply is at the discretion of the lender.

**2.5 ARTICLE 5**

If a request for information is based on actual or contemplated litigation, clearly indicate this. Reply is at the discretion of the lender.

**2.6 ARTICLE 6**

All credit correspondence, including form letters, should bear the manual signature of an authorized LACDB staff member.

**2.7 ARTICLE 7**

**DO NOT** share credit information on a mutual subject more often than annually, unless a significant change in the relationship requires an earlier revision. An example of a "significant change" would be a request for credit by the subject.

**2.8 ARTICLE 8**

When making multiple investigations on the same subject, clearly state that the information from each respondent's own files is sufficient.

**Subject: FILE MAINTENANCE****1.0 OVERVIEW**

Four general types of files shall be maintained for each LACDB loan or investment:

1. Credit File
2. Documentation File
3. Legal File
4. Disbursement File

All LACDB loan/investment files shall be organized in such a manner as to allow any third party to pick up the files and understand the status of the transaction or project. This includes writing memos to file, where applicable, explaining problems with the borrower, corrective action to be taken, etc.

**2.0 CREDIT FILE**

A Credit File shall be established for each business with which the LACDB has a loan or investment. The Credit File should be orderly, accurate and contain full support for a borrower's loan and reflect continuing knowledge of the borrower's financial affairs.

**3.0 DOCUMENTATION FILE**

The Documentation File contains the permanent records of the loan or investment and generally all the information on the checklist and copies of all loan/investment documentation. After recording, all original recorded documents (Deed of Trust, Assignment of Leases and UCC Financing Statements) shall be maintained in the Documentation File, together with other original loan documents. Files shall be organized and indexed in such a manner that the contents may be easily audited and any individual item found with a minimum of difficulty.

Original documentation must be held: 1) by the LACDB Collateral Agent; or 2) maintained by LACDB in a bank safe deposit box with access controlled by the Chief Credit Officer. Documentation held under the control of LACDB shall be maintained in a bank safe deposit box with access controlled by the Chief Credit Officer. Current and complete Legal Files, which shall include duplicates of all Documentation File information, shall be maintained in LACDB offices for each loan/investment.

**4.0 DISBURSEMENT FILE**

The Disbursement File is one of the working files for the proper administration of the loan during its life. It contains the majority of the information necessary to administer loan advances and payments after closing. Disbursement files shall be organized and indexed in such a manner that the contents may be easily checked and any individual item found with a minimum of difficulty.

**5.0 LEGAL FILE**

The Legal File contains the permanent records of the loan and contains all original loan documents. After recording, copies of all recorded documents (Deed of Trust, Assignment of Leases and UCC Financing Statements) should be maintained in the Legal File, together with other original loan documents. Copies of the recorded documents should be retained in the Duplicate Legal File.

**Subject: DOCUMENTATION AND AUDITS****1.0 GENERAL**

All original loan, investment and collateral documentation shall be maintained in vault protection. Original documentation must be held: 1) by the LACDB Collateral Agent; or 2) maintained by LACDB in a bank safe deposit box with access controlled by the Chief Credit Officer. Current and complete Legal Files, which shall include duplicates of all Documentation File information, shall be maintained in LACDB offices for each loan/investment.

**2.0 PROCEDURES FOR DOCUMENTATION HELD BY LACDB COLLATERAL AGENT**

Procedural details to be determined.

**3.0 AUDIT PROCEDURE**

The documentation file is to be complete and audited by the Loan Administration after the closing date of the loan/investment. LACDB management shall establish a program of regular audits of documentation files and disbursement files. After the files are audited, a tickler should be prepared to again audit the file in six months.

(SPECIAL AUDIT PROVISIONS SHALL BE REQUIRED FOR AUDITS OF DOCUMENTATION NOT MAINTAINED IN LACDB CONTROL.)

**Subject: RISK IDENTIFICATION SYSTEM****1.0 OVERVIEW**

Credit risk is the risk that, due to default by a borrower, the transaction will not be repaid in accordance with its terms. This risk applies to principal, interest and/or fees owed to the lender. Identification of the risks inherent in any loan or investment transaction must be accomplished at an early stage in considering any new business investment. In addition to the normal steps taken by the loan officer (e.g., investigation and financial analysis), the risk management process provides tools for formal risk identification.

LACDB shall establish and maintain a Risk Identification System and loan and investment loss reserve consistent with the requirements of LACDB regulations; provided that in no event shall such system be more stringent than the comparable loan classification and loan loss requirements of commercial banks.

The Credit Committee shall approve and monitor a Risk Identification System established and maintained by LACDB management for use in evaluating and quantifying the level of risk to which LACDB is exposed with individual borrowers. Each individual LACDB risk transaction shall be assigned a quality rating reflecting the degree of risk and the likelihood of orderly liquidation. By compiling this information for the entire portfolio, it shall be possible to directly measure the level of risk being experienced in the portfolio.

**Subject: RISK ASSET WORKOUTS****1.0 OVERVIEW**

Workouts are loan or investment transactions that require special handling due to the identification of increased risk factors and a heightened potential for loss. The management of workout situations is an integral and active part of the risk management process.

The mission, when managing a workout situation, is twofold. Broadly stated, it is to minimize LACDB's loss. Within that context, however, whenever possible, the objective is the rehabilitation of troubled businesses and their return to performing status.

Workout situations shall be more than mere collection efforts. Loans/investments are aggressively managed based upon informed measures of the industry, company, management, and the specific financial condition of the borrower. LACDB management shall maintain a positive, objective, proactive, and highly professional approach to problem solving, which is designed to protect or restore jeopardized loan or investment assets in an efficient and cost-effective manner.

**2.0 WORKOUT RESPONSIBILITY**

LACDB management shall have primary responsibility for directing workout efforts in problem loan/investment situations. LACDB management shall have the authority and responsibility to decide when sufficient uncertainty or increased risk exists in a transaction to warrant its being designated for special handling.

**3.0 CHARGE-OFF POLICY**

Charging off an asset, or a portion thereof, may be deemed appropriate when one or both of two conditions is present:

- It has been determined that all or a portion of an asset is uncollectible;
- There is uncertainty as to the source or timing of the eventual payoff of the asset, but certainty that such payoff, if it occurs, will be protracted.

Charge off recommendations shall be submitted by LACDB management for review by the Credit Committee. Final approval by the Board of Directors shall be required for loan or investment charge offs.

**4.0 LOAN LOSS RESERVE**

LACDB shall establish and maintain a Risk Identification System and loan and investment loss reserve consistent with the requirements of LACDB auditors; provided that in no event shall such system be more stringent than the comparable loan classification and loan loss requirements of commercial banks.

The process of determining LACDB's loan loss reserve shall be the responsibility of LACDB management, subject to the approval of the Credit Committee.

The loan loss reserve shall be created in order to recognize the dollar level of risk assets which may be expected to be charged off at some future date, but have not yet been specifically identified. The determination of the loan loss reserve shall be based upon a review of asset portfolio in light of a variety of factors, which include:

- The present level of charge-offs;
- The composition and status/quality of the LACDB risk portfolio.

These factors shall be examined not only as they exist currently, but as they may exist in the future based upon projections. This allows loan loss reserve allocation decisions to more realistically reflect all events that may be expected to have an impact on them.

**Subject:       SUSPENSION OF INTEREST ACCRUAL****1.0           NON-ACCRUAL STATUS**

All loans delinquent in interest or principal shall be placed on non-accrual status by the 90th day of delinquency, unless LACDB management (the Chief Credit Officer) approves temporary accrual exception. LACDB management shall also establish criteria by which accrual of interest shall be discontinued prior to the 90th day of delinquency.