REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date:	August 20, 2020	CAO File No.	0220-00540-1472
		Council File No.	12-0647-S6
		Council District:	Citywide

To: The Mayor
The Council

From: for Richard H. Llewellyn, Jr., City Administrative Officer Yolanda Chavez

Reference: Housing and Community Investment Department (HCID) transmittal dated June 12, 2020; Received by the City Administrative Officer on June 24, 2020; Additional Information Received through August 20, 2020

Subject: **REQUEST FOR AUTHORITY TO MAKE TECHNICAL AMENDMENTS TO THE FORECLOSURE REGISTRY PROGRAM ORDINANCE AND THE HOUSING REGULATIONS OF THE LOS ANGELES MUNICIPAL CODE, ARTICLE 4 OF CHAPTER XVI**

RECOMMENDATION

That the Council, subject to the approval of the Mayor, adopt Recommendations II. A and B of the Housing and Community Investment Department transmittal dated June 12, 2020 relative to making technical amendments to the Foreclosure Registry Program Ordinance and the Housing Regulations of the Los Angeles Municipal Code, Article 4 of Chapter XVI.

SUMMARY

The Housing and Community Investment Department (HCID) requests authority to work with the City Attorney to draft technical amendments to the Foreclosure Registry Program Ordinance and the Housing Regulations of the Los Angeles Municipal Code (LAMC), Article 4 of Chapter XVI, Sections 164.00 through 164.10 (Ordinance). The Department states that the City established the Foreclosure Registry Program (Program) as a mechanism to protect the economic stability and viability of residential neighborhoods, prevent blight deriving from the lack of adequate maintenance of residential properties in foreclosure, and further monitor the status of residential communities in Los Angeles to ensure their safety during a foreclosure crisis. The proposed technical amendments to the Ordinance include: 1) exemptions for individual lenders and mortgage loans owned or backed by Government from the provisions of the Ordinance; 2) the clarification of definitions; 3) the codification of a review process to assess fee and penalty waivers; 4) a shift from monthly to quarterly inspections; and, 5) the introduction of a temporary stay or suspension from the enforcement of the provisions under certain circumstances, including the declaration of a disaster area. The HCID indicates that the proposed technical amendments would increase the efficiency and effectiveness of the administration of the Program. A full list of the proposed technical

amendments is included in HCID's transmittal dated June 12, 2020 (Report). Additional information on the achievements of the Program is also included in the Report. This Officer concurs with the recommendations of the Department.

Program Requirements and Fees

The existing Ordinance requires lenders/beneficiaries, trustees, or affiliated agents of properties in foreclosure to: 1) register with HCID within 30 days of the issuance of a Notice of Default; 2) conduct monthly inspections; 3) provide the inspection reports to HCID; and, 4) maintain the property. The registrant is required to pay the annual registration fee of $155 for as long as the property is subject to the Ordinance. Subsequent to the release of their Report, HCID confirmed that the annual fee is $155, not $150 as noted in their Report. An additional proactive inspection fee of $356 is required when a registered single-family residential property's status changes to foreclosed to pay for the Department of Building and Safety to conduct inspections of the physical property. The beneficiary and/or trustee is required to de-register the property when the Notice of Default is cancelled or the property is sold to a third party. Failure to comply with the Ordinance can result in HCID issuing a Notice of Non-Compliance with potential penalties in the amount of $250 per day, up to a maximum total of $100,000.

As of May 1, 2020, the HCID collected $26.5 million through the program, of which $12.5 million were from registration fees, $13.4 million were from penalty fees, and $600,000 were from proactive inspection fees. The Department states that all fees are used to pay for the cost to administer the Program; however, the Council has the authority to approve the use of penalty fees for other purposes, such as funding the Moderate Income Purchase Assistance (MIPA) Program, which provides loans to cover the down payment, acquisition, and closing costs for first-time, moderate income homebuyers.

Small-scale Individual Lenders

The Department reports that while implementing the Program, they have encountered a number of small-scale individual lenders that may not have the same resources as other major banks and lending organizations to comply with the Ordinance, and may experience a financial hardship in response to penalty fees assessed for any violations of the Ordinance. The HCID describes small-scale individual lenders as those that are not involved in the industry's lending sector at a professional level, and they may only make a single or a limited number of loans, which end in default. The HCID reports that as of the first quarter of 2020, there are 44 delinquent individual lenders who have incurred penalties for 50 properties, and whose delinquencies have resulted in approximately $2 million in outstanding fees and penalties. The Department indicates that it may be difficult to collect the outstanding $2 million because of individual lenders' claims of financial difficulties, and 36 of the 50 properties are no longer in foreclosure. The HCID recommends amending the Ordinance to include a retroactive exemption for individual lenders to the moment they were expected to register their properties. The Department claims that approval of the proposed amendment would allow HCID to direct staff resources toward enforcement and collections among major banks and lenders with multiple properties, as opposed to small-scale individual lenders. Subsequent to the release of their Report, HCID verified that there is currently

$24.97 million in outstanding registration ($51,000) and penalty ($24.92 million) fees for properties with Notice of Non-Compliances from 2014 through 2019. The $2 million attributed to small-scale individual lenders represents eight percent of HCID's outstanding registration and penalty fees.

FISCAL IMPACT STATEMENT

There is no impact to the General Fund. The Foreclosure Registry Program is supported by special funds, which are supported by dedicated funding sources, and spending is to be limited to the mandates of the funding source.

FINANCIAL POLICIES STATEMENT

The recommendation in this report complies with the City's Financial Policies.

RHL:EIC:02210028c