

STAFF REPORT
City of Lancaster, California

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Date: August 14, 2007

To: Mayor Hearn and City Council Members

From: Elizabeth Brubaker, Director of Housing & Neighborhood Revitalization

Subject: **Approve Implementation of the Neighborhood Foreclosure Preservation Home Ownership Program and Make Certain Findings**

Recommendation:

Adopt **Resolution No. 07-161**, approving the implementation of the Neighborhood Foreclosure Preservation Home Ownership Program regarding funding outside of the Redevelopment Project Area to benefit the Redevelopment Project Areas.

Fiscal Impact:

Funding of the Neighborhood Foreclosure Preservation Home Ownership Program will come from the Lancaster Redevelopment Agency's Low- and moderate-income Housing Fund. Appropriate \$1,500,000 to Foreclosure Program Account No. 940-7002-942 from the Mental Health Section 108 Re-Payment Account No. 960-9502-942.

Background:

The Agency is required to deposit not less than 20% of its tax increment revenues in the Low-and-Moderate Income Housing Fund and to expend the monies in the Housing Fund only for the purpose of increasing, improving or preserving the supply of low- and moderate-income housing in the City. Redevelopment housing funds may be used in a variety of ways to support and assist the development, improvement and preservation of affordable housing. However, the Redevelopment Agency must distribute housing funds among low- and moderate-income households in proportion to the housing needs of these groups identified in the City's housing element of the General Plan. Failure to spend monies in the Housing Fund in a timely manner could result in penalties against the Agency. These penalties could prevent the Agency from undertaking economic development activities and requires the expenditure of non-housing money for housing purposes.

On September 26, 2006, the Agency Board directed staff to commence with the redevelopment processes necessary and a budget to implement the Housing Division's strategy. The strategies of the Housing Division are as follows: (1) to reverse the pattern of deterioration and recapture the sense of place that once existed; increase the livability and vitality of the neighborhoods; and rekindle a sense of pride among residents unique to Lancaster; (2) to prevent further blight by encouraging and fostering housing and economic revitalization by protecting and promoting the

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sound development and redevelopment of the community; reinvest in the older and often overlooked neighborhoods, commercial districts and downtowns, and encourage new development at the edges; and (3) to participate in the Strong Neighborhoods Initiative.

The Housing Division has assessed a need for a Neighborhood Foreclosure Preservation Home Ownership Program. Foreclosures cause devastating financial and psychological impacts on families, safety and blighting problems for neighborhoods. Every foreclosure has a financial impact on the surrounding community, the city, and the lender or servicer who owns the loan.

Recent statistics show that the Antelope Valley may see a significant rise in foreclosures. On July 24, 2007, the Daily News reported that in just LA County alone, foreclosures were up 800% from just one year ago. Foreclosure Radar recently released figures that shows California foreclosure sales reached \$12 billion in the first half of 2007, with Los Angeles County posting the 2nd highest number of foreclosure sales by volume, 1st was Riverside County. Realty Trac currently shows 1,354 properties in “pre-foreclosure” for just zip codes 93534, 93535 and 93536, with 409 scheduled to go to auction within the next 30 to 60 days. This pace puts the Antelope Valley ahead of the housing crisis experienced in the mid 1990’s. Experts predict an even higher percentage of “pre-foreclosures” towards the end of 2007 as 2-year adjustable mortgages start to re-adjust and homeowners can no longer afford the homes they bought a mere 24 months ago.

Placing an estimate on the economic benefits of preventing foreclosures is challenging. The Neighborhood Foreclosure Preservation Home Ownership Program is designed through a partnership of the Department of Housing & Neighborhood Revitalization, key lending institutions, servicing institutions, homeownership/credit counseling and mortgage education institutions to preserve sustainable homeownership for Lancaster residents through reclaiming foreclosed homes as neighborhood assets. Residents of Lancaster will have the opportunity to receive the services offered by the partnership to learn about the issue of foreclosure and what options they may have when facing difficulties meeting their mortgage obligation. As a result of these direct activities offered through the Neighborhood Foreclosure Preservation Home Ownership Program partnership residents of Lancaster will have the opportunity to avoid foreclosure.

The Housing Division proposes the Program be implemented citywide to assess the conditions of housing, code enforcement, crime, demographics and other information to supply, preserve and maintain affordable, decent, safe and sanitary housing, which benefits the neighborhoods that surround and intertwine the seven-redevelopment project areas. In addition, the seven-redevelopment project areas do not have sufficient land available to provide affordable owner-occupied housing. The Program will permit the Agency and the City to make decisions on how to utilize Agency and City resources to supply, preserve and maintain affordable decent, safe and sanitary housing in the areas outside the redevelopment project areas.

The Department of Housing & Neighborhood Revitalization, the Federal Reserve Bank of San Francisco, key lending, investment, servicing, homeownership/credit counseling and mortgage education institutions will be launching an aggressive campaign to address the alarming rise in foreclosures in Lancaster’s low- and moderate-income neighborhoods. The Division is seeking to preserve sustainable homeownership for Lancaster residents and to reclaim foreclosed homes as neighborhood assets.

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To meet these goals, the Neighborhood Foreclosure Preservation Home Ownership Program partners will develop a four-part strategy:

- Provide quality pre-purchase preparation and homeowner continuing education as an investment in preventing future delinquencies;
- Provide a range of direct intervention services to assist homeowners who are at risk of losing their homes through foreclosure;
- Utilize the Department of Housing & Neighborhood Revitalization expertise in single-family housing rehabilitation to reclaim foreclosed housing stock for affordable housing and put it back in the possession of owner-occupants; and,
- Study the mortgage and servicing industry and its impact on neighborhoods, and the behavior of delinquent borrowers, as a basis for developing best practices and serving as a laboratory for training and replication.

The goal of the Neighborhood Foreclosure Preservation Home Ownership Program is to reclaim vacant, abandoned properties for affordable housing, strengthen blocks and neighborhoods by eliminating the blighting effects of vacant properties, and enforce the city codes and city building code requirements.

Code Enforcement

The city has implemented a Property Maintenance Ordinance, which enables the city to aggressively address problem buildings and preserve affordable housing. The ordinance, which went into effect in 2006, expanded the responsibility of a public nuisance beyond just building owners, to include agents, managers or lien holders if the property is found to be a public nuisance, and holds all parties liable for code violations if they do not maintain properties pursuant to the Lancaster Municipal Code. Owners and lenders of nuisance buildings will be forced to either make repairs or place the property in receivership for the Department of Housing & Neighborhood Revitalization to acquire, rehab and have Greater Antelope Valley Board of Realtors sell to owner occupants. The city hopes that such aggressive tactics will motivate all parties with an interest in a property to take the necessary action to keep that property in good condition. Additionally, it gives the city an option other than demolition when they encounter vacant buildings, which ultimately preserves affordable housing opportunities.

In unique cases, if the owner fails to address code violations, the city will aggressively seek demolition, the appointment of receivers, or forfeiture of title against the owner. The desired outcome on all feasible properties is that they are transferred to responsible owners and rehabilitated as affordable housing.

REO Donated and Discounted Properties Program

Properties in foreclosure often exhibit deferred maintenance and deterioration. Many of these properties have low value for the financial institution's Real Estate Owned (REO) department. The normal foreclosure and property disposition process followed by servicers results in a majority of these properties being sold to investors and speculators at a loss to the lender that can lead to problems and disinvestment in the community. Because of their location within blighted

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and blighting neighborhoods these properties may be of strategic value to neighborhood revitalization if rehabbed and sold to a new owner-occupant.

Through the Neighborhood Foreclosure Preservation Home Ownership Partnership loan servicers will be asked to monitor their REO inventory for “low value” and strategically located properties suitable for donation or deep discount to the Department of Housing & Neighborhood Revitalization. The lenders will be asked to compile monthly or quarterly REO reports of properties in these targeted neighborhoods.

Once a property is identified and a price negotiated, the Department of Housing and Neighborhood Revitalization may acquire the property, rehab it, and have licensed real estate members from the Greater Antelope Valley Board of Realtors sell the homes to very low and low income owner-occupants. The Department of Housing & Neighborhood Revitalization may provide appraisal gap subsidy as needed to enhance the amount of rehab that can be completed on the property. The result is a win for all partners. The financial institution can transact a quick sale and remove the trouble property from its balance sheet. The newly rehabbed homes provides an affordable housing opportunity for a very low and low income families, private and public partnerships working together, the neighborhood market values are preserved, and the neighborhood block improves.

Purchase Rehabilitation Program

Another resource for reclaiming vacant and troubled buildings is by assisting would be homeowners with direct lending. The Department of Housing and Neighborhood Revitalization may provide such purchase/rehabilitation loans and major rehab services to owner-occupant buyers and borrowers. Individuals interested in purchasing an unimproved home are assisted by staff who works with them throughout the rehab process to make sure that the work is completed safely and properly. By improving the home it helps eliminate safety concerns, including fire hazards and lead-based paint hazards, and lowers costs by installing more energy efficient systems and replacing windows. The end result is a lower interest rate loan, a safer house, less expensive operating costs, and a great start for the new homeowner. The program will be a combination of private and public funds with the goal to provide affordable owner occupant housing and give families a better option than high priced home equity loans and refinancing that may lead to foreclosure.

Agency staff believes that implementing the Neighborhood Foreclosure Preservation Home Ownership Program will meet the strategies and goals of the Housing Division, and meet the goals of the City Council. To make modest neighborhoods as appealing as high-end neighborhoods, to stabilize neighborhoods physically and make older neighborhoods as safe and desirable as new ones and therefore, recommends approving the subject program.