

Application Overview
(Application No. 688479394)

The City of Los Angeles is requesting an allocation of \$100,000,000 in Neighborhood Stabilization Program 2 (NSP2) funds to acquire, rehabilitate and re-sell up to 1,200 housing units. The City will meet the NSP2 required outcomes by implementing the two program strategies described below, which will reduce the number of vacant and abandoned properties, reduce the absorption period for sales of foreclosed properties, and stabilize home values in the target neighborhoods.

From January 2007 to March 2009, a total of 24,611 housing units (19,652 single- and multi-family housing properties) were foreclosed upon in the City of Los Angeles. During the first quarter of 2009, a total of 3,368 units were foreclosed citywide, an increase of 341% from the first quarter of 2007. The Los Angeles Housing Department (LAHD) has been monitoring the impact of foreclosures and is implementing the City's approved Neighborhood Stabilization Program (NSP1).

NSP2 will support and enhance the City's NSP1 funded efforts. As with NSP1, the selection of the NSP2 target areas was driven by data that quantifies neighborhood-specific need based on the HUD Foreclosure Risk Scores. This data reveals that the hardest hit areas of the City are the Eastside and South Los Angeles and neighborhoods in the San Fernando Valley. These NSP2 target areas represent less than 10% of the area of the entire city. However, 32% of the foreclosures (and 35% of all units foreclosed upon) have taken place in these areas.

During this 27-month period, , within the target areas, there have been 6,330 foreclosed properties (which represent 8,525 units). Of these, 4,990 are single-family homes or condos and 3,535 are units in 1,340 multi-family buildings. The foreclosed multi-family buildings in the target areas represent 50% of all the foreclosed multi-unit buildings citywide. As a result of the concentration of foreclosures in the target areas, home values have also significantly declined. From 2007 to 2008, home values in the target areas declined 30%-47% and further declines have occurred in 2009. For many households, the equity value in their home represented a significant source of wealth that has evaporated.

The target areas in Los Angeles also represent communities with high concentrations of poverty. In these areas, residents have employment rates that are lower than the City as a whole; are more likely to live in overcrowded conditions and pay a higher percentage of income on housing costs; and have greater likelihood of being victims of crime.

NSP2 PROGRAM COMPONENTS

Walk-in Purchase Assistance with Rehabilitation

The Walk-In Purchase Assistance with Rehabilitation program offers purchase assistance and rehabilitation financing to eligible low- and moderate-income homebuyers seeking to purchase a foreclosed home in the target areas. The program provides mortgage assistance and rehabilitation loans totaling up to:

- \$125,000 for low and moderate-income households (<80% AMI); and
- \$100,000 for middle-income households (81-120% AMI).

The mortgage assistance loans are considered gap-financing and limited to the amount necessary to bridge the gap between the maximum first mortgage loan attainable by the homebuyer and the purchase price of the home. Loan repayments are due upon sale, title transfer of the property or first mortgage repayment. Shared appreciation applies to purchase assistance portions of the loans. For rehabilitation loans, three percent (3%) simple interest is applied. Borrowers must continually occupy the property as their primary residence.

REO Bulk Purchase Program through Restore Neighborhoods LA, Inc. (RNLA)

RNLA was recently established as a non-profit 501 (c)(3) and Community Based Development Organization (CBDO). As LAHD's NSP subrecipient, RNLA acquires foreclosed properties in bulk from lenders and servicers, rehabilitates single-family homes and offers them for sale to homebuyers. It also works with mission-driven affordable housing developers to acquire and rehabilitate foreclosed multi-family properties to manage as affordable rental housing.

RNLA is a key component of the City's strategy to stabilize neighborhoods because it acquires and transforms the worst, most blighted properties into attractive homes rehabilitated to the Green Communities Standard. This standard ensures that sustainable materials and technologies are employed in the rehabilitation of properties (i.e. energy efficiency, water efficiency, indoor air quality, and effective resource management). By purchasing and rehabilitating these blighted and abandoned properties, RNLA improves the housing stock while removing opportunities for criminal and other gang-related activity.

RNLA is working with the National Community Stabilization Trust (NCST) to negotiate bulk purchases of REO properties from banks and loan servicers. They are also working with the NCST/REO Capital Fund on a \$20 million revolving line of credit to acquire and rehabilitate foreclosed residential properties. The line of credit will leverage significantly more private loan capital to finance the acquisition and rehabilitation of foreclosed properties in the target neighborhoods.

These two strategies (Walk-in Program and RNLA Bulk Purchase) can be used in every target area, in combination and separately. Almost all foreclosed properties in the San Fernando Valley are single family detached homes and condominiums. In this area, market forces can be harnessed, with the proper financial incentives, to focus lower and middle income families on purchasing and rehabilitating REOs. The Walk-in Program provides those incentives to families that would like to become homeowners.

The markets in the Eastside and South Los Angeles are much more challenging. Because the average absorption periods are long – six and nine months respectively – blighted properties accumulate in the neighborhoods becoming havens for squatters and staging areas for crime. These foreclosed properties include smaller single family homes and two to four unit rental buildings. Strategies to address these areas differ from those that will work in the San Fernando Valley. The RNLA Bulk Purchase Program will focus on South Los Angeles and the Eastside where the most distressed foreclosed properties are located. These properties will be purchased in bulk from lenders, rehabilitated and resold, transforming a huge negative into positive homeownership and long-term affordable rental opportunities for neighborhood residents.

The City's NSP2 implementation strategy includes private and public partnerships with mortgage lenders, homebuyer educators and the real estate industry, Enterprise Community Partners, County of Los Angeles Department of Mental Health, Los Angeles Homeless Service Authority, Housing Authority of the City of Los Angeles and local non-profit service providers. NSP2 funds will also be utilized in combination with other federal American Recovery and Reinvestment Act resources from HUD such as the Homelessness Prevention and Rapid Re-Housing Program and CDBG-Recovery programs. The City of Los Angeles is committed to arrest the downward spiral and neighborhood decline caused by foreclosures and eliminate blight in its neighborhoods.

RATING FACTOR 1: NEED AND MARKET CONDITIONS***a. Target geography***

In May 2009, California experienced more foreclosures than any other state in the nation with 92,249 foreclosure filings; one in every 144 housing units received a foreclosure filing¹. In sheer volume of foreclosures, California surpasses all states in the nation. In the City of Los Angeles, during the first quarter of 2009, a total of 3,368 units were foreclosed upon citywide, an increase of 341% from the first quarter of 2007. Between January 2007 and March 2009, a total of 24,611 housing units (in 19,652 single family and multifamily properties) were foreclosed upon as shown on Map 1, Los Angeles Foreclosures, that follows.

Methodology for Selecting Areas of Greatest Need

The Los Angeles Housing Department (LAHD) analyzed and mapped the HUD foreclosure index needs scores and HUD estimated income data by Census block group. These two variables produced two separate but correlated geographies that were then further refined to identify areas that met both requirements. The LAHD then performed a spatial analysis to extract the block groups that scored 18 or more in the HUD foreclosure related index in which the majority of households meet the HUD income criteria of 120% AMI and below. The required data is provided in Appendix 1.

Target Areas

As a result of the data, mapping, and foreclosure activity analysis, the LAHD selected a total of 463 block groups in 164 census tracts for the NSP2 target areas, which are shown on Map 2, NSP2 Target Areas, that follows. All the Block Groups that comprise the target areas have a foreclosure related index of 18 or above and meet the required income restrictions. The confluence of these factors created clusters in the Eastside, South Los Angeles, and the San Fernando Valley. These geographies correspond with the areas of highest foreclosure activity in the City.

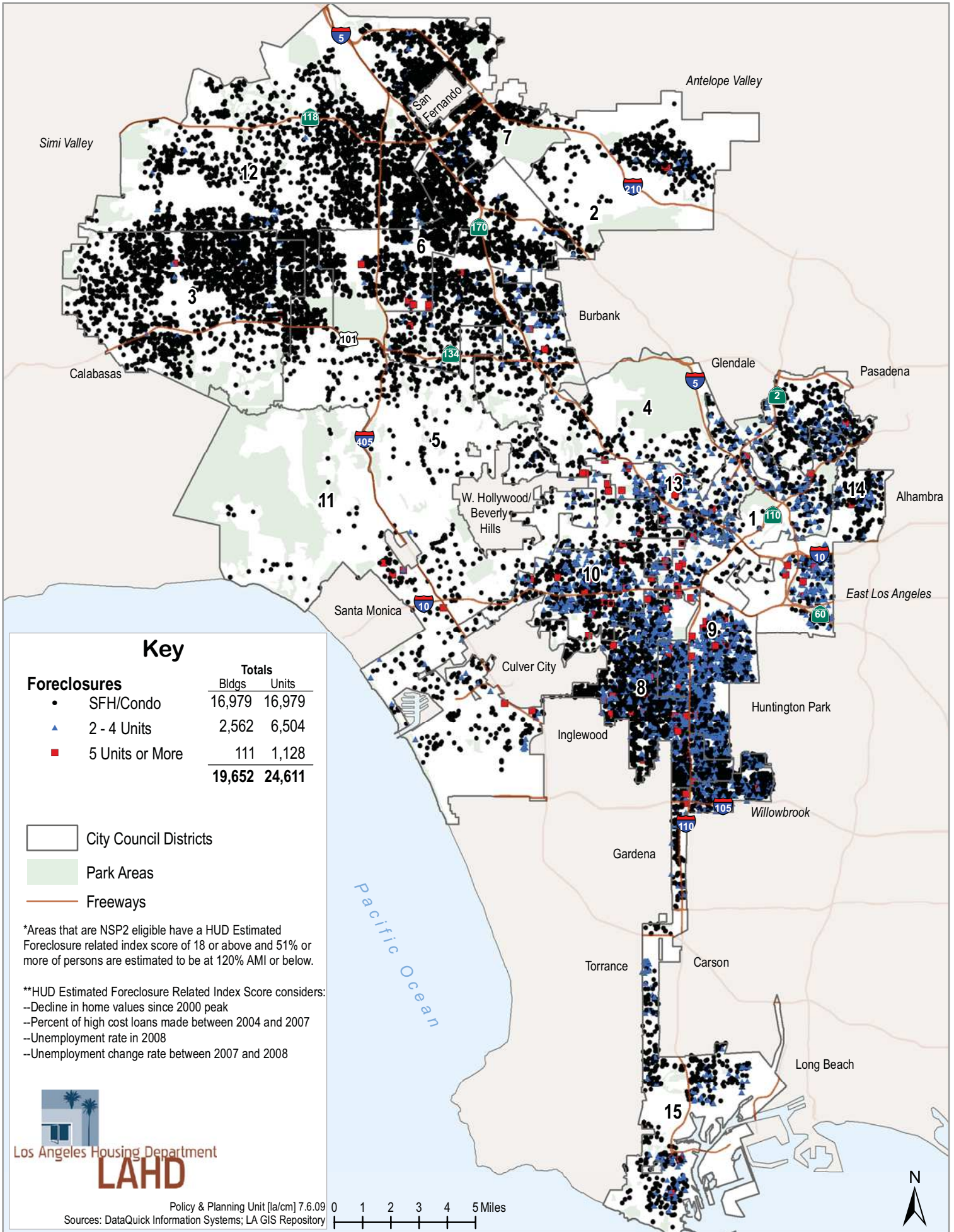
The NSP2 target areas represent less than 10% of the area of the entire city. However, 32% of the foreclosures (and 35% of all units foreclosed upon) in the last 27 months have taken place in these areas. Within the target areas, between January 2007 and March 2009, there were 6,330 foreclosed properties (which represent 8,525 units). Of these, 4,990 are single-family homes or condos and 3,535 are units in 1,340 multi-family buildings. The foreclosed multi-family buildings in the target areas represent 50% of all the foreclosed multi-unit buildings citywide.

Nature and Extent of Need for Neighborhood Stabilization in the Target Areas

As a result of the concentration of foreclosures in the target areas, home values have also significantly declined. From 2007 to 2008, home values in the target areas declined 30%-47%

¹ "U.S. Foreclosure Activity Decreases 6 Percent in May," press release, June 11, 2009, RealtyTrac. Note: foreclosure filings include the following: NOD, NTS, NFS, and REO.

City of Los Angeles: Foreclosures January 2007 - March 2009



Key

Foreclosures

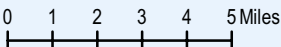
- SFH/Condo
- ▲ 2 - 4 Units
- 5 Units or More

Totals	
Bldgs	Units
16,979	16,979
2,562	6,504
111	1,128
19,652	24,611

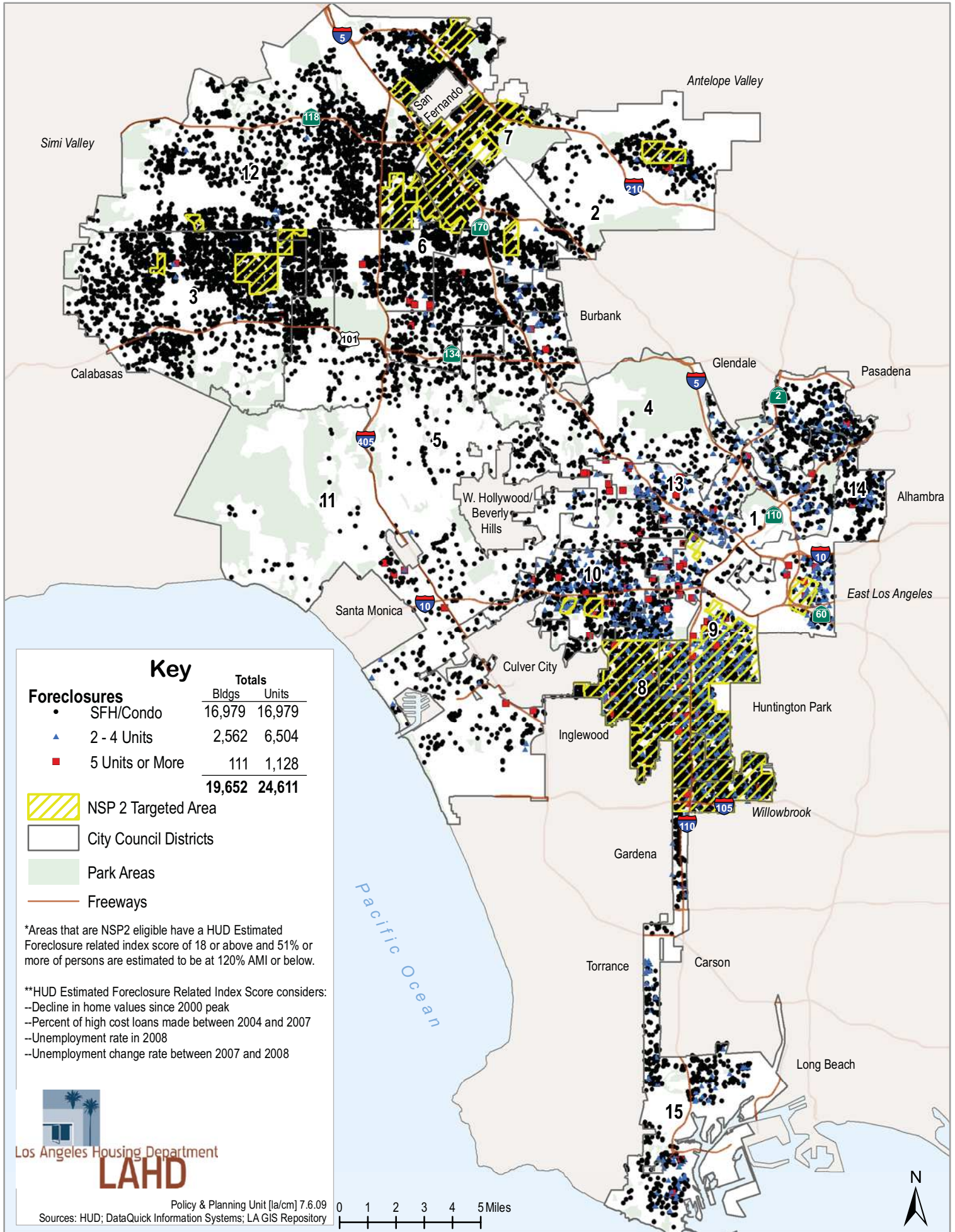
- City Council Districts
- Park Areas
- Freeways

*Areas that are NSP2 eligible have a HUD Estimated Foreclosure related index score of 18 or above and 51% or more of persons are estimated to be at 120% AMI or below.

**HUD Estimated Foreclosure Related Index Score considers:
 --Decline in home values since 2000 peak
 --Percent of high cost loans made between 2004 and 2007
 --Unemployment rate in 2008
 --Unemployment change rate between 2007 and 2008



City of Los Angeles: Foreclosures Jan 2007 - Mar 2009 & NSP 2 Targeted Area



and further declines have occurred in 2009. For many households, the equity value in their home represented a significant source of wealth that has evaporated.

The target areas in Los Angeles represent communities with high concentrations of poverty. In 2008, the Economic Roundtable, a non-profit public policy research organization, published a report for the City entitled Concentrated Poverty in Los Angeles. The report identified and profiled neighborhoods in Los Angeles and found that high levels of poverty are pervasive in South Los Angeles, portions of the San Fernando Valley and the Eastside. These disadvantaged communities correspond to the target geographies identified for the NSP2 programs.

Not surprisingly, they also align with a portion of the new Recovery Zones chosen for Los Angeles, pursuant to the "American Recovery and Reinvestment Tax Act of 2009" (the "Recovery Act"). The Recovery Act created a new category of bonds - Recovery Zone Bonds - for areas that have been designated by the locality as having significant poverty, unemployment, home foreclosures or general distress, or which are a designated empowerment zone or a renewal community.

The overlap with Recovery Zone geography is a strong indication that Los Angeles' proposed NSP2 target areas are those in greatest need of neighborhood stabilization. They are primarily in the older parts of the City, lacking traditional financial institutions, with a prevalence of high cost financial services such as check cashers, pawnshops and payday lenders. They include some of the highest crime areas with active street gangs. All these factors militate against steady neighborhood recovery; the support of additional resources such as the Neighborhood Stabilization Program 2 grant funds will be critical to arresting the downward spiral in the target areas.

The unemployment rate in the City of Los Angeles (12.5%) is among the highest in the nation; nearly 33% higher than the overall U.S. rate of 9.4 percent. Unemployment rates were also higher in communities of concentrated poverty as compared to the City as a whole. Even among the gainfully employed, many have had work hours reduced and thus have been forced to use their savings for daily expenses. And mortgage credit is not as readily available to homebuyers. New underwriting standards requiring higher credit scores and larger down payments prevent buyers from purchasing homes that now may be affordable. As a result, foreclosed properties remain vacant and on the market for extended periods of time. Many REO properties remain on the market for periods exceeding 90 days. These properties often attract criminal activity that contributes to the further decline of these neighborhoods.

b. Market conditions and demand factors

Single-family Ownership Housing Market

Overvaluation and Subsequent Price Decline

There were substantial declines in the median single family home price over the past two years due to overvaluation of home prices. These impacts were more severe in the target areas than in Los Angeles County as a whole. In the South Los Angeles and adjacent County area combined, from 2007 to 2008, the median home price decline was 24%. However, when taken

separately, the City's South Los Angeles sector showed a decline of 31%. From 2008 to 2009, prices continued to decline faster in South LA (40%) over the County as a whole (32%). In the San Fernando Valley, the median home price declined 29% from 2007 to 2008. The next year saw an even more dramatic decline of 37%.² To illustrate the impact of overvaluation of housing prices in the target areas, the table below shows housing values at the height of the market and their subsequent, steep decline.³

Community Name	ZIP Code	2007 # of Sales of SFRs	2007 Price Median SFR (in \$1,000s)	Price % Chg from 2006 to 2007	2008 # of Sales of SFRs	2008 Price Median SFR (in \$1,000s)	Price % Chg from 2007 to 2008	May 2009 # of Sales of SFRs	May 2009 Price Median SFR (in \$1,000s)
S. LA	90003	265	\$400	1.3%	163	\$215	-46.3%	24	\$150
S. LA	90011	211	\$435	6.6%	112	\$241	-44.7%	10	\$175
S. LA	90016	159	\$525	-0.9%	133	\$350	-33.3%	12	\$277
S. LA	90037	143	\$439	-2.4%	63	\$306	-30.5%	12	\$142
S. LA	90047	353	\$446	1.3%	266	\$290	-34.9%	39	\$189
S. LA	90059	265	\$395	5.3%	207	\$210	-46.9%	38	\$115
E. LA	90023	57	\$410	2.8%	31	\$285	-30.8%	4	\$114
E. LA	90033	58	\$425	6.9%	20	\$279	-34.4%	4	\$202
SF Valley	91331	419	\$510	-0.4%	413	\$290	-43.1%	63	\$220
SF Valley	91402	175	\$506	-0.7%	216	\$300	-40.8%	24	\$241
SF Valley	91342	498	\$537	-2.2%	478	\$348	-35.2%	76	\$274

The representative zip codes in the table from the NSP2 target areas demonstrate the impact of the inflated home prices. In zip code 90003, in South Los Angeles, the median home price was \$400,000 in 2007. In just one year, 2008, with the impact of foreclosures and the economic downturn, the median home price dropped to \$215,000. A similar pattern can be seen for zip code 91331, in the Valley. Home prices there reached \$510,000 in 2007 and subsequently declined 43% to \$290,000. Although the percentage declines are similar, the markets are starkly different. In South Los Angeles, the housing stock consists of older, smaller one- to two-bedroom homes in need of major rehabilitation. By contrast, the housing stock in the Valley consists of larger, relatively newer housing, built on larger parcels, with configurations that can better accommodate larger families.

Home Prices and Income

Although home prices have moderated significantly, Los Angeles remains one of the least affordable regions in the nation. According to the May 2009 National Association of Home Builders/Wells Fargo Housing Opportunity Index, Los Angeles ranks in the top five least affordable housing markets in the nation. It takes an income of at least \$50,000 to purchase the lowest price home in Los Angeles. It is estimated by the California Association of Realtors® that only 43% of current residents can afford to buy the median priced home in Los Angeles; that percent was significantly lower in 2007. The tables below show the 2009 HUD maximum

² DataQuick Information Systems, CA Cities Charts June 2008 and April 2009.

³ California Association of Realtors®, DataQuick, and Almanac research (1996 - 2008 data) : DataQuick Information Systems, May 2009 data

income limits for a 4-person household and the income necessary to purchase an average priced home in South Los Angeles, the Eastside and the San Fernando Valley.

2009 HUD Incomes for Family of Four			
50% AMI (Very Low)	60% AMI	80% AMI (Low)	120% AMI (Moderate-Middle)
\$39,650	\$47,580	\$63,450	\$95,150

Area⁴	South LA	Eastside	S.F. Valley
Average Sales Price	208,610	202,087	336,250
Down Payment (3%)	(7,301)	(7,073)	(11,769)
Mortgage Needed	201,309	195,014	324,481
Monthly P&I	1,175	1,138	1,894
Monthly Tax	217	211	350
Monthly Insurance	43	42	70
Monthly Housing Payment	1,435	1,391	2,314
Monthly Income Needed	4,220	4,091	6,805
Annual Income Needed	50,639	49,096	81,656

Assumptions:	
Housing Cost Ratio : Principal, Interest, Taxes, and Insurance	34%
Loan Interest Rate	5.75%
Loan Term (years)	30
Taxes (% of purchase price)	1.25%
Down Payment	3.50%

As can be seen in the tables above, families of four whose incomes are less than 80% AMI may be able to afford to purchase a home in South Los Angeles and the Eastside, when the mortgage payment does not exceed 35 percent of their gross income. However, if homes need \$50,000 in repairs, as do many REOs, only families with higher incomes or other resources will be able to afford to purchase and rehabilitate these properties. Without City assistance, lower and moderate income families will not be able to purchase homes that require significant repairs or, more likely, will purchase homes "as is" and live in unsafe conditions. Middle income earners with incomes over 110% AMI qualify for a home purchase in all of the NSP2 selected areas. However, if moderate rehabilitation is involved, they will be limited in terms of location or may only be able to purchase homes with health and safety problems.

Absorption Rate: Average Length of Time to Sell a Home

⁴ Multiple Listing Service. Average Home Sales for May 2008 to May 2009

The LAHD compiled single-family sales data from the Multiple Listings Service (MLS) for the past year (June 2008 to May 2009) to calculate the current absorption rate in the target area. To accommodate the differences in housing market conditions as well as the concentration of foreclosed single- and multi-family housing units, the LAHD divided the target area into three sub-areas: South Los Angeles, the Eastside and the San Fernando Valley.

The MLS sales data was used to determine the absorption rate in the target areas because this data is disaggregated at the individual sales level and was the most readily accessible for analysis purposes. The MLS is an appropriate data source for illustrating market absorption because it distinguishes REOs that are currently available on the market from those that are owned by lending institutions, but not yet ready for sale. The LAHD used absorption data for all housing units for this discussion and to set program goals.

The LAHD collected data by zip code and then grouped them by sub-areas to calculate an absorption rate for each. Following is a table with the absorption rate by area; the average length of time it takes to sell a property.

Area	Total Active Listings as of 6/23/09 (A)	6/1/08-5/31/09 Sales (B)	Average Sales Per Month [C=(B/12)]	Predicted Months of Inventory [D =(A/C)
South LA	1,122	2,311	193	6
Eastside	45	57	5	9
Valley	987	4,552	379	3

The table shows that in South Los Angeles, based on average sales per month, it will take six months to clear the existing inventory; nine months on the Eastside and three in the Valley. In all of the areas, new REOs are expected to come on the market since the lender moratorium has expired, which would probably slow the absorption rates.

The findings above further justify the need to devise neighborhood-specific stabilization strategies for each of the sub-areas within the City and the need for intervention in selected areas to ensure quick absorption of the homes for sale. These absorption rates will serve as the basis for the three-year projected foreclosure absorption rates.

Rental Housing Market

The average vacancy rate in the City is 5%, up from 4.2% in January 2007, an increase of 19 percent. The City has experienced relatively low vacancy rates in the past few years, however, when we look at the selected target areas; we find that that the vacancy rates are higher than the average. For example, the current vacancy rate for Sylmar, a neighborhood in the San Fernando Valley located within the selected target areas, is 7.7%, more than twice the previous year's rate of 3.2%⁵.

⁵ Los Angeles Department of Water & Power and the Los Angeles Housing Department.

In Los Angeles, rental rates vary widely by region in the City. The affordability gains in homeownership have not translated to the Los Angeles rental market. Overall, rents have consistently increased since 2000. From 1997 to 2007, the Consumer Price Index, excluding rental costs, has increased by 24 percent while rental housing costs have increased by 65 percent. Coupled with declining household incomes, renters face a tough housing market in Los Angeles.

Rental Rates and Housing Cost Burden

A recent study of renters in Los Angeles found that from 1990 to the present, the median incomes of renters have been less than half of the median incomes of homeowners. In 2007, homeowners' median income was \$73,000. Renters in parts of the northeast, northwest and southwest San Fernando Valley have earnings that are well below 50% of the Area Median Income -- \$39,650 for a family of four. Renters in these regions face a large disparity between rental costs and incomes. This fact, combined with the gap between home purchase prices and incomes, is why Los Angeles has often been listed among the most unaffordable cities of the nation by the National Low Income Housing Coalition's annual *Out of Reach* report.

Area	Median Monthly Rent	Annual Income Needed to Afford Rent	Renters' Actual Median Income ⁶	Percent of Median Income dedicated to Rent	50% AMI (Very Low) ⁷	80% AMI (Low) ⁸	120% AMI (Moderate to Middle) ⁹
South Los Angeles	\$884	\$35,360	\$24,320	44%	\$39,650	\$63,450	\$95,150
Eastside	\$906	\$36,240	\$28,953	38%	\$39,650	\$63,450	\$95,150
Valley	\$1,065	\$42,600	\$33,690	38%	\$39,650	\$63,450	\$95,150

With such large gaps between income and rental rates, it is not surprising to find renters allocating more than 30 percent of their income toward rent. All renters in the selected NSP2 areas are rent-burdened, **none** pay affordable rents where a maximum of 30 percent of annual income is dedicated to rental costs.

Income Characteristics and Relevant Factors Contributing to Neighborhood Decline

The NSP2 target areas represent communities with high concentrations of poverty. The 2008 report referred to above, Concentrated Poverty in Los Angeles, found that poverty rates in Los Angeles were 46% higher than U.S. poverty rates and that poverty is concentrated in specific communities in the City, including South Los Angeles, the Eastside and parts of the San Fernando Valley. In particular, South Los Angeles contains several neighborhoods in which more than 40% of households live in poverty. In these areas, residents have higher unemployment rates than the City as a whole, are more likely to live in overcrowded conditions and pay a higher percentage of their income for housing, and have greater likelihood of being victims of crime.

⁶ 2006 American Community Survey (ACS), converted to 2009 dollars

⁷ 2009 HUD Income Limits for Los Angeles for a family of four.

⁸ Ibid.

⁹ Ibid.

Criminal activity and City programs in the NSP2 Target Areas

In areas with higher crime rates, foreclosed properties are less attractive to private sector investment and, without public intervention and investment, contribute to blight and deterioration. Vacant and abandoned properties can become nuisances that attract crime and gang-related activities. As such, the LAHD analyzed data and maps on citywide crime, gang activity, nuisance abatement and took this into account when determining the NSP2 target areas. The areas most affected by crime correspond with the areas that have many foreclosures and that rank high on HUD's Indexes.

Taking into account the most recent Los Angeles Police Department (LAPD) crime data available for 2007, 2008 and 2009, the combined violent crime incidents were highest in LAPD's South and Central Bureaus. The table below details this data. These five divisions overlap with the NSP2 target areas and are all located within the South and Central LAPD Bureau areas. See <http://www.lacity.org/lahd> for a map of LAPD's Bureaus and Areas showing these high crime areas.

Top Five Violent Crime Areas			
RANK	DIVISION NAME	2007-2009 YTD TOTALS	BUREAU
1	77th Street	3,505	South
2	Southwest	2,849	South
3	Newton	2,784	Central
4	Southeast	2,540	South
5	Rampart	1,806	Central

LAPD Gang Injunctions

A gang injunction is a court order, in the form of a preliminary or permanent injunction, issued against a criminal street gang for the purpose of abating the gang's nuisance activity. There are currently 37 active injunctions (involving 57 gangs) in the City. NSP2 target areas overlap Gang Injunctions in all four of the LAPD Bureaus. See Appendix 8 and <http://www.lacity.org/lahd> for a map of LAPD's Gang Injunctions.

Gang Reduction and Youth Development (GRYD) Zones

GRYD zones are neighborhoods where rates of violent gang-related crime are at least 400 percent higher than elsewhere in the City. These areas are tailored to the specific needs of each neighborhood covering a roughly 3.5-square-mile area. Each GRYD has an increased deployment of police and each area receives additional resources focused on prevention, intervention and re-entry programs for those involved with or otherwise affected by gangs. There are currently twelve GRYDs, ten of which overlap with the NSP2 target areas. See Appendix 8 and <http://www.lacity.org/lahd> for a map of GRYD Zones

Citywide Nuisance Abatement Program (CNAP)

CNAP is a multiagency task force, charged with targeting the worst abandoned structures and nuisance properties. CNAP is coordinated by the Office of the City Attorney and is an

interdepartmental effort that targets abandoned structures and nuisance properties to eliminate blight and stabilize neighborhoods that have been impacted by foreclosure as well as illegal activities at these properties. CNAP utilizes LAPD's geographies to tract its abatement activities. An analysis of CNAP data for the last 2 years revealed that the areas where program activity has been concentrated overlap with the NSP2 target areas.

b. Market Conditions and Demand Factors

NSP2 Activities Most Likely to Stabilize the Target Areas

In the Valley, where the absorption rate for all housing currently averages three months, the LAHD proposes to operate a homebuyer 'purchase assistance with rehabilitation' program under "Eligible Use B: Purchase and rehabilitate homes and residential properties that have been abandoned or foreclosed upon, in order to sell, rent, or redevelop such homes and properties."

The LAHD Walk-In Purchase Assistance Program with Rehabilitation (WIP) program will be most utilized in the Valley. This program harnesses current market forces (interest in purchasing single family homes as the absorption rate indicates) and focuses low and middle income buyers on buying foreclosed homes, by providing financial incentives to encourage buyers to purchase and rehabilitate these properties for their principal residences. Without NSP2 funded assistance, buyers are likely to focus on properties that have fewer rehabilitation needs. They may be able to afford to purchase a home, but not invest in the substantial rehabilitation needed and the REOs will continue to blight the neighborhoods.

In South Los Angeles and the Eastside, market forces are not encouraging, with absorption rates for all housing of six months and nine months, respectively. These areas will require a different type of program. The NSP2 activities will incorporate the following Eligible Uses:

- Eligible Use A: Establish financing mechanisms for purchase and redevelopment of foreclosed upon homes and residential properties, including such mechanisms as soft-seconds, loan loss reserves, and shared-equity loans for low-and moderate-income homebuyers;
- Eligible Use B: Purchase and rehabilitate homes and residential properties that have been abandoned or foreclosed upon, in order to sell, rent, or redevelop such homes and properties; and
- Eligible Use E: Redevelop demolished or vacant properties as affordable housing.

Due to the lack of movement in the market, to stimulate the purchase of properties in these areas, LAHD must employ a different strategy. LAHD's non-profit subrecipient, Restore Neighborhoods LA, Inc. (RNLA) will purchase some of the most blighted, vacant and foreclosed single family homes in bulk in these neighborhoods, rehabilitate and resell them at market value to local residents for their principal residences. This will stimulate buyer interest in the housing market there by rehabilitating some of the worst (and, potentially, most dangerous) properties in these neighborhoods. It will also serve as a vehicle to help neighborhood residents, who might not otherwise become homebuyers, purchase a home. These activities will increase neighborhood stability.

In addition, RNLA will purchase blighted foreclosed residential rental properties. As learned from the data analysis, two-to-four unit rental properties are the predominant type of REO rental properties in these areas. RNLA will purchase these properties and resell them to affordable housing developers who will rehabilitate and maintain these as long term affordable housing for at least 55 years. In some cases, if there is no other public financing available for rehabilitation, RNLA will carry out the rehabilitation and sell these properties to affordable housing developers, social service providers for permanent supportive housing and other mission-driven organizations with property management experience

Approximately 90% of the activities in South Los Angeles and the Eastside will be under Eligible Use B and incorporate the use of funds from Eligible Use A's Line of Credit (discussed under Factor 4). However, there will be some instances of foreclosed upon land where nuisance properties were demolished that would better serve the community by being rebuilt as affordable homeownership or rental property. The face of a neighborhood can be dramatically improved by using vacant land to construct attractive new housing. Therefore, LAHD through its subrecipient, RNLA, will conduct some activities under Eligible Use E.

While we anticipate that the primary activities described herein will be neighborhood specific, all of the NSP2 will be available to stabilize the target areas. For example, significantly blighted properties that may exist in the SF Valley will be purchased and rehabilitated by RNLA if it is determined that these activities provide the best opportunity to stabilize those neighborhoods. In addition, buyers will also have the opportunity to participate in LAHD's Walk-In Purchase Assistance Program with Rehabilitation to purchase properties in South and East LA. Together, these activities will increase neighborhood stability in all of the target areas.

FACTOR 2: DEMONSTRATED CAPACITY OF THE APPLICANT AND RELEVANT ORGANIZATIONAL STAFF

a. Past Experience of the Applicant

The LAHD has managed neighborhood stabilization activities similar to the ones covered under this notice for many years. In the past two years, 340 homebuyers have received assistance from the LAHD, and affordable housing developers funded by the LAHD have successfully completed rehabilitation of 732 affordable rental housing units. Below is a sample of programs operated by LAHD that are most relevant to the proposed NSP2 programs.

Eligible Use B: Purchase and rehabilitate homes and residential properties

The Low Income Purchase Assistance with Rehabilitation (LIPAR) and Moderate Income Purchase Assistance with Rehabilitation (MIPAR) Programs. The LAHD has been operating the LIPAR program since 1994 and the MIPAR program since 2005. From 2007 – 2009, the LAHD loaned more than \$28.5 million to assist 310 households purchase and rehabilitate homes throughout the City. This program has more than 22 participating lenders and hundreds of real estate agents. The LAHD requires that qualified borrowers attend at least eight hours of homebuyer education by an approved provider. Seven local HUD-certified homebuyer education programs provide a regular stream of qualified homebuyers for the program. LAHD's Finance Development Officers underwrite loans and ensure compliance with applicable regulations. In March 2008, the waiting list was at its maximum with 452 on the low-income

(80% of AMI and below) program list and 381 on the moderate-income (81-150%) program list. LAHD staff conducts property inspections, creates rehabilitation work write ups and cost estimates and inspects and approves construction before payments are made to the building contractor. Based on the successful LIPAR/MIPAR programs, a Walk-In Purchase Assistance with Rehabilitation program utilizing NSP1 funds began in April 2009. Lessons from the operation of those programs will inform the NSP2 WIP. The LAHD has successfully competed for \$16.6 million in state grant funds to supplement HUD's resources from the Consolidated Plan funding.

Eligible Use E: Redevelop demolished or vacant properties as housing.

- **Major Projects Acquisition and New Construction / Acquisition and Rehabilitation Programs to Create Affordable Rental Housing.** These programs began in 1979. Through the Major Projects division, LAHD makes long-term loans to rehabilitate existing structures to create long term (55 years+) affordable rental housing. Financial Development Officers process and evaluate loan packages for quality and adherence to program requirements. Environmental specialists conduct environmental reviews to ensure compliance with the National Environmental Policy Act. Construction rehabilitation specialists develop work write ups and perform cost estimation, architects review concepts and plans for architectural feasibility and soundness, and the prevailing wage unit staff educates, monitors and enforces prevailing wage requirements of applicable labor laws to ensure contractor compliance. In the past 24 months, affordable housing developers funded under this program have successfully completed rehabilitation of 732 affordable housing units with a total of \$26.7 million in LAHD funding and a total development cost of \$166,274,621. An additional 234 affordable housing units are currently under construction representing \$10.98 million in LAHD funding and \$65,133,422 in total development costs.

Eligible Use A: Establish Financing Mechanisms

- **The New Generation Fund Financing for Predevelopment and Acquisition of Sites for Affordable Housing (NGF).** In July of 2008, the City announced the first multimillion dollar financing tool for the preservation and creation of affordable housing. The NGF is a \$100 million predevelopment and acquisition fund created through a partnership with the City and a consortium of banks and other financial institutions, foundations and community development financial institutions (CDFI). The Fund is designed to reduce the time and cost associated with securing predevelopment funding by offering affordable housing developers early-stage financing for affordable properties intended for low- and moderate-income residents. Developers can secure predevelopment loans of up to \$10 million for acquisition and predevelopment costs. The NGF is expected to preserve or produce 6,000-8,000 units of affordable housing throughout the City. The NGF Team continues to meet with new banks and foundations in an effort to secure additional resources. To date, the NGF has provided \$29.6 million in acquisition and predevelopment loans for an anticipated 524 units.
- **Supportive Housing Loan Fund (SHLF).** The LAHD administers the City's Permanent Supportive Housing Program (PSHP), a gap-financing program for developers creating homeless housing with a "housing first" model; affordable housing coupled with a menu of supportive services for the chronically homeless. Like other affordable housing developers, permanent supportive housing developers find it particularly challenging to secure scarce sites for the creation of these highly-specialized and deeply-subsidized units. In partnering

with the Corporation for Supportive Housing (CSH), the nation's authority on the design, development and financing of supportive housing units, the City made an historic commitment to addressing homelessness in a long-lasting manner through the launching of the PSHP in 2006. With this backdrop, and as a natural extension to the collaboration with the CSH, in 2007 the LAHD developed the SHLF to specifically complement the City's PSHP. The Loan Fund is a \$30 million acquisition and predevelopment loan fund for the creation of permanent supportive housing. This fund is the largest of its kind in the nation. The City's \$5 million investment in the Loan Fund is expected to leverage an additional \$45 million over 5 years to finance a minimum of 1,500 units. So far 793 units have received funding commitments, including 503 in the past two years. The SHLF has provided \$12.9 million in acquisition and predevelopment for an anticipated 604 units. Neither the NGF nor the SHLF will provide financing for two- four unit rental projects and single family homes. Therefore, LAHD is working with the National Community Stabilization Trust (NCST) to develop a Line of Credit for NSP1/2 projects (discussed under Factor 4 Leveraging).

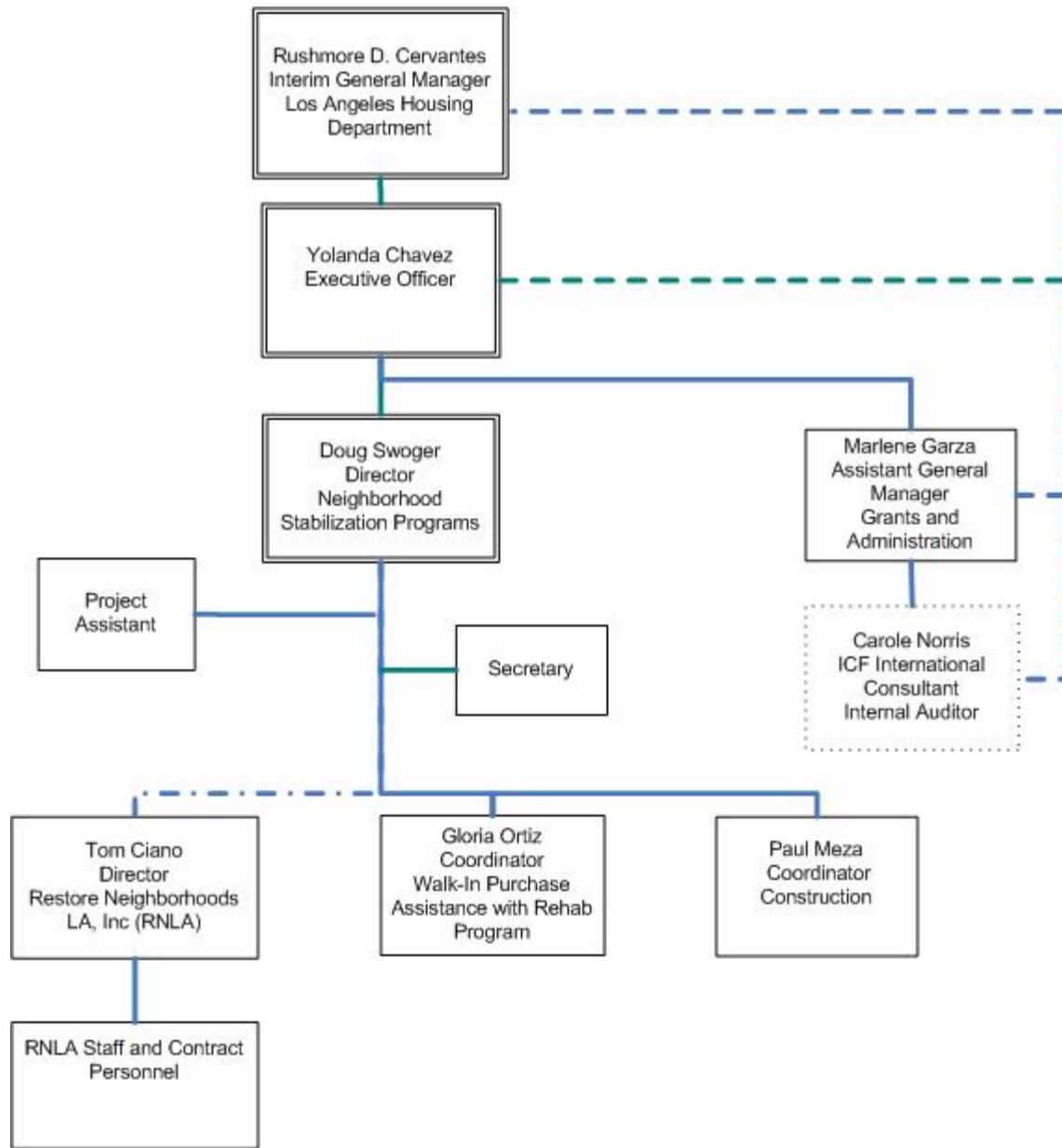
b. Management Structure

Description of Management Structure.

The organization chart that follows identifies key management positions, giving the names and positions of staff managing NSP1/2. The Director of Neighborhood Stabilization Programs, Doug Swoger, is responsible for the daily management of the WIP program and oversees the activities of RNLA. As a LAHD subrecipient, RNLA's relationship is shown by a dotted line since it is a separate non-profit agency under contract with the City to operate the bulk purchase of single family and residential rental properties component of the NSP. The NSP Internal Auditor is outside the direct management of the NSP program and is connected to both the AGM and the Executive Officer by dotted line to illustrate her ability to report to senior management and the fact that she is a consultant, not a direct report.

LAHD's Neighborhood Stabilization Program is organized as follows:

Interim General Manager (GM), Mr. Rushmore D. Cervantes. Mr. Cervantes has had a distinguished 16-year career with the City of Los Angeles. Most recently, he was the Acting City Controller directing the operations and programs of the Controller's office, including revenue forecasting and tracking; the Internal Control and Certification Program; the waste, fraud & abuse unit, and financial and performance audits. Mr. Cervantes was appointed to this position after having served as Deputy Chief Controller since 2006. Mr. Cervantes' experience will be instrumental in ensuring that the NSP2 goals of transparency and accountability are achieved. From January 4, 2004 to June 26, 2009, Mercedes Marquez was the General Manager of the Los Angeles Housing Department. Her vision reinvented the Housing Department and enabled LAHD to achieve the results described in Part 2.a. above. The GM plans, organizes, and oversees all LAHD activities and directs the implementation and administration of policies and programs related to affordable housing development, rehabilitation, code compliance and rent stabilization. The GM also works with Mayor and City Council, other City departments, other governmental jurisdictions, and civic and business organizations regarding the redevelopment of foreclosed properties. The GM is a spokesperson for the City's affordable housing needs and priorities.



Executive Officer (EO), Yolanda Chavez. The EO is responsible for the day to day oversight of all LAHD programs while ensuring that the General Manager is kept apprised of critical program delivery issues. This includes the supervision of the Assistant General Manager who oversees the Grants and Administration bureau. The EO develops, approves, and ensures implementation of departmental operating policies and procedures. Because the Neighborhood Stabilization Program is of the highest priority to the Department, the Director of Neighborhood Stabilization will report to the EO. Ms. Chavez has served as EO since November 2006.

Director, Neighborhood Stabilization Program (DNSP), Doug Swoger. The DNSP is responsible for the implementation and day-to-day management of the NSP program. The director develops and oversees the implementation of policies and procedures related to NSP operations. He oversees the operation of RNLA, working closely on all aspects of program

activities. The director also develops public, private, interagency, and community partnerships to provide additional capital funding, technical resources and sustainable energy expertise to the NSP program. Other duties include overseeing LAHD's existing homeownership, rehabilitation and lead hazard remediation programs. Mr. Swoger has worked for the LAHD since January 2007.

Director, Restore Neighborhoods LA, Inc. (RNLA Director), Tom Ciano. The RNLA Director oversees the operations of this nonprofit development company that focuses on acquiring, rehabilitating, and reselling vacant and foreclosed homes and residential properties in target areas of greatest need in Los Angeles. RNLA is sponsored by Enterprise Community Partners. Mr. Ciano has been with RNLA since its inception in 2009. Formerly he was Executive Director of Neighborhood Restore HDFC (NR) and Restored Homes Housing Development Fund Corporation (Restored Homes). NR was created to manage a major housing development and disposition program for the New York City Department of Housing Preservation and Development called the Third Party Transfer Program (TPT). NR took ownership of *in rem* foreclosed properties and managed developers that were responsible to stabilize and rehabilitate the distressed properties. Restored Homes is a non-profit organization that partners with the New York City Department of Housing Preservation and Development (HPD) and two leading national CDFIs - Local Initiatives Support Corporation (LISC) and Enterprise Community Partners, Inc. (Enterprise) - to revitalize New York City neighborhoods affected by the mortgage foreclosure crisis. Restored Homes purchases vacant 1-4 family homes in targeted neighborhoods, addresses their rehabilitation needs and re-sells them to low- and moderate-income families. From 1999 to 2006, Mr. Ciano was the founding Executive Director of both NR and Restored Homes.

Coordinator, Walk-In Program (CWIP), Gloria Ortiz. The CWIP assists in the implementation of the walk-in portion of the NSP Program and oversees the underwriting of loans for homebuyers of eligible foreclosed homes. The Coordinator also reviews loan packages to ensure that they adhere to all program requirements and maintains liaison with participating lenders and homebuyer education providers. Other duties include supervising staff in processing loan submissions and preparing technical reports and memorandums. Ms. Ortiz has worked for the LAHD since August 1993.

Coordinator, Construction Services (CCS), Paul Meza. The CCS is responsible for overseeing the physical rehabilitation activities on foreclosed properties, including performing property inspections, determining scope of work, creating work write ups and cost estimates, making progress inspections, and reviewing construction packages and draw payments. Other duties include coordination with contract agencies in training, monitoring work performance, and overseeing the bid process. The coordinator also ensures program compliance and supervises Rehabilitation Construction Specialists. Mr. Meza has worked for the LAHD since January 1994.

Assistant General Manager, Grants and Administration (AGMGA), Marlene Garza. The AGMGA oversees department-wide administration of budget, accounting, business/information systems applications development, grant seeking and management, and systems technical support. The AGMGA works with staff to coordinate LAHD finances and grant writing to develop new programs, manage the accounting functions of LAHD loan portfolios and directs

staff in the management of funds and budget appropriations. Through management of the information systems applications development unit, the AGMGA oversees the development and maintenance of critical information technology applications to support the NSP, home ownership, housing development and rehabilitation, occupancy monitoring, and code enforcement units within LAHD. The grants management unit prepares the Department's Consolidated Plan, Action Plan and CAPER documents, applies for and administers housing grants, and works with LAHD program staff to ensure compliance with HUD and other cross-cutting Federal grant regulations. Ms. Garza has been AGMGA since January 2005.

NSP Internal Auditor (IA), Carole Norris. Carole Norris, a Vice President of the consulting firm, ICF International, will serve as LAHD's Internal Auditor for NSP. The IA will monitor, assess, and analyze organizational risk and controls for the NSP1/2 programs. She will review and confirm program activities and compliance with policies, procedures, and laws. She will provide feedback to management and make recommendations for enhancing processes, policies, and procedures. She will have unrestricted access to all functions, records, information, property, and personnel and report directly to the AGM and, as she sees fit, the EO and GM. Ms. Norris has worked with HUD-funded programs since 1986 and has conducted numerous program evaluations. Ms. Norris has been with ICFI since 1995.

(2) References for LAHD's Homeownership with Rehabilitation Programs:

1. Lenders

Jeanette Mayes
Citibank
285 S. Lake Avenue
Pasadena, CA 91101
(818) 687-9935
jeanette.c.ruizmayes@citi.com

Elisa Soria
Bank of America
100 Wilshire Blvd., Suite 600
Santa Monica, CA 90401
(310) 434-1818
elisa.soria@bankofamerica.com

2. **A Chance for First-Time Buyers**, Los Angeles Times, October 21, 2007. See <http://www.lacity.org/lahd>
3. **Article regarding LAHD's NSP website: <http://www.govtech.com/gt/658500>**

RATING FACTOR 3: SOUNDNESS OF APPROACH

a. Proposed Activities

(1) *Briefly describe the overall neighborhood stabilization program*

Los Angeles' greatest foreclosure problems are not in new subdivisions, but in older lower and middle income areas where new buyers purchased homes with dubious loan products and owners of existing homes took advantage of (or were taken advantage by) skyrocketing market values that permitted equity lines of credit and loans with terms that seemed to promise cash without consequences. Of fifteen Council Districts, eleven contain qualified NSP2 census tracts. The vast majority of these census tracts are in the NSP1 target areas, which can be seen in the map entitled NSP1and2_eligible areas at <http://www.lacity.org/lahd>. Therefore, the City is proposing to intensify its existing NSP program using NSP2 funds to significantly change and improve housing market dynamics.

LAHD's strategies will transform the worst, most blighted housing into attractive properties rehabilitated to the *Green Communities Standard*. A key feature of the LAHD approach is to focus on homes and residential properties that most likely will not be purchased because of the amount of rehabilitation required. By purchasing or providing incentives to purchase these properties, LAHD is removing some of the worst eye-sores and opportunities for gang and other criminal activities from the neighborhoods.

LAHD has designed two programs to do this:

- The Walk-In Purchase Assistance with Rehabilitation Program (WIP) -- Households with incomes at or below 120% AMI identify foreclosed upon single family homes to purchase as their primary residences. The LAHD has created a website that provides the ability to check if a property is in an NSP1 target area at <http://lahd.lacity.org/nsp/>. All foreclosed properties acquired with NSP funds are located within the identified target neighborhoods and purchased at a minimum 1% discount from the appraised value. The City provides mortgage assistance and rehabilitation loans to eligible homebuyers using NSP funds for "gap" mortgage assistance and rehabilitation loans up to:
 - \$125,000 for low and moderate-income households (<80% AMI); and
 - \$100,000 for middle-income households (81-120% AMI).

Interested homebuyers and realtors can find REO properties in NSP1/2 target areas by searching LAHD's NSP website. The website contains a diverse array of information for buyers and sellers about the NSP. City staff inspect the properties prior to purchase, develop the rehabilitation specifications and inspect construction to ensure that the

methods, materials and workmanship match the scope of work. See sample construction specifications at <http://www.lacity.org/lahd>.

- REO Bulk Purchase Program through Restore Neighborhoods LA, Inc. (RNLA) – RNLA is LAHD’s subrecipient. It acquires foreclosed properties in bulk from lenders and servicers through the National Community Stabilization Trust. It rehabilitates single family homes and offers them for sale to homebuyers. It also works with mission-driven affordable housing developers to rehabilitate, purchase and manage rental housing with 55 year affordability covenants.

These two strategies can be used in every target area, in combination and separately. Almost all foreclosed properties in the San Fernando Valley are single family detached homes and condominiums. As discussed in Factor 2, this area has market forces that can be harnessed, with the proper financial incentives, to focus lower and middle income families on purchasing and rehabilitating REOs. The WIP provides those incentives to families that would like to become homeowners.

The market in South Los Angeles and the Eastside is much more challenging. Because the average absorption periods are long – six and nine months respectively – blighted properties accumulate in the neighborhoods becoming havens for squatters and staging areas for crime. These foreclosed properties include smaller single family homes and two to four unit rental buildings. Strategies to address these areas differ from those that will work in the Valley. The City is committed to arrest this spiral and eliminate blight in the neighborhoods. The REO Bulk Purchase Program will focus on South Los Angeles and the Eastside where the worst foreclosed properties are located along with the highest levels of crime and gang activity. These properties will be purchased in bulk from lenders, rehabilitated and resold, transforming a huge negative into positive homeownership and long-term affordable rental opportunities for neighborhood residents. (See attached map showing the South Los Angeles neighborhoods eligible for NSP2 at <http://www.lacity.org/lahd>).

PROPOSED GOALS AND OUTCOMES

The City’s NSP1 grant of \$32,860,870 provided a needed starting point but much remains to be done to stabilize neighborhoods. Many more resources than are presently available will be required to stop the downward spiral of property abandonment. The NOFA requires that “the amount of NSP2 funds requested must be of sufficient size to contribute toward significant and measurable neighborhood stabilization in the target geography.” This is why the City is requesting an allocation of \$100,000,000 in NSP2 funds to acquire, rehabilitate and re-sell 265 single family homes and 947 units of multifamily rental properties as shown in the table below.

Property Type	NSP2 Funds	Buildings	Units
SF Homes	\$45,000,000	265	265
Rental Buildings (4 Units Each)	\$45,000,000	237	947
TOTAL	\$90,000,000	502	1212

MEASURABLE OUTCOMES

Changes in Median Market Values and Absorption Rates. A sizeable number of properties will need to be purchased, rehabilitated and re-sold in order to stabilize the housing market in South Los Angeles and the Eastside. Therefore, in South Los Angeles and the Eastside, it will most likely take until July 2011 for the median market values to begin to increase more than two percent. A reduction in the average absorption time will occur more quickly as blighted properties are removed from the target areas; this change is projected to begin in January 2011.

Although prices are rising and there are over-bids on prime properties in the Valley, blighted foreclosed properties lag the market. It is difficult to predict when the housing market in the Valley for REOs will stabilize. If there is not a flood of new foreclosures on the market over the next year, we anticipate that in the Valley the housing market for REOs will improve and stabilize in July 2010 and that prices will start to rise. The absorption rate will continue to be three months since many areas in the Valley are desirable places to live.

SHORT TERM OUTCOME: *Arrest the decline in home values based on average sales price in targeted neighborhoods.*

LONG TERM OUTCOME: *Increase median market values of real estate in targeted neighborhoods*

The following chart shows the time period and projected sales prices in the geographic target areas. Areas of the Valley have been subdivided here because the price differences and the forecasted percentage changes are significant.

Target Areas	SHORT TERM			LONGER TERM				
	Median Home Price May 2009	Percent Change May-08 to May-09	Projected % Change May-09 to May-10	Projected May 2010	Projected % Change May-10 to May-11	Projected May 2011	Projected % Change May-11 to May-12	Projected May 2012
South LA	\$174,000	-48.1%	0.50%	\$174,870	1.67%	\$177,790	2.67%	\$182,537
Eastside	\$265,000	-25.4%	0.50%	\$266,325	6.22%	\$282,877	6.72%	\$301,872
West Valley	\$350,000	-19.5%	2.52%	\$358,803	3.02%	\$369,620	4.52%	\$386,309
NE Valley	\$280,000	-23.3%	8.54%	\$303,912	9.04%	\$331,386	9.54%	\$363,000

OUTCOME: Decrease absorption times in South Los Angeles and the Eastside.

The following chart shows the predicted months of housing inventory in the target areas.

Area	Total Active Listings as of 6/23/09 (A)	6/1/08-5/31/09 Sales (B)	Average Sales Per Month [C=(B/12)]	Predicted Months of Current Inventory [D =(A/C)	Predicted Months of Inventory July 2010	Predicted Months of Inventory July 2011	Predicted Months of Inventory July 2012
South LA	1,122	2,311	193	6	5	4	3.5
Eastside	45	57	5	9	7	5	3.5
Valley	987	4,552	379	3	3	3	2.5

LONG TERM OUTCOME: Reduce or eliminate vacant and abandoned residential property in targeted neighborhoods.

Within 36 months of receiving NSP2 funds, LAHD will have taken off the market at least 35% of the vacant residential units listed in the US Postal Services' vacant properties survey (total_90_day_vacant_residential_addresses) as of May, 2009.¹⁰ These properties will be owned by homeowners or affordable housing groups. See discussion under Factor 4b.

Coordinated Components not Funded with NSP

The City of Los Angeles is taking a comprehensive approach to prevent and mitigate the negative impacts of foreclosures. The City's NSP program is designed to stabilize neighborhoods once foreclosures have occurred. In addition to these efforts, the City has also passed legislation and allocated resources to strengthen and coordinate foreclosure prevention and counseling programs, provide incentives to lenders and loan servicers to provide loan

¹⁰ This is the latest data available

modifications to homeowners at risk of foreclosure, protect residents from foreclosure-related fraud, register foreclosed properties to decrease vandalism and ensure property maintenance, protect tenants from evictions resulting from foreclosures, and prevent homelessness for residents that have gone through foreclosure. In addition, within the NSP targeted neighborhoods, LAHD is focusing its low-income homebuyer assistance programs and coordinating NSP with its Lead Hazard Remediation program. These wide-ranging actions to prevent foreclosures and lessen their impact are not funded with NSP and described in more detail below.

Strengthen and Coordinate Foreclosure Prevention and Counseling Programs – The City has allocated nearly \$2 million CDBG-R funding made available through the American Recovery and Reinvestment Act of 2009 (ARRA) to enhance local foreclosure prevention efforts. The program will coordinate and work to expand foreclosure prevention services for Los Angeles City residents. It will: 1) coordinate interagency collaboration among homeownership, foreclosure prevention, loan modification, credit repair, financial literacy, anti-predatory lending, and legal counseling agencies; 2) provide outreach, education and referral services on behalf of counseling agencies; and 3) centralize and collect data on service provisions and outcomes. The program will provide incentive grants to HUD-approved housing counseling and local legal services agencies that collaborate to devise provide a uniform, streamlined service and referral system for City residents in the areas most impacted by foreclosures as identified in the City's NSP program. This program is intended to be a coordinated service component of RNLA and will further the City's neighborhood stabilization efforts.

Incentives to Lenders to Provide Loan Modifications – The City and Community Redevelopment Agency (CRA/LA) has allocated \$1 million to a pilot foreclosure prevention program for homeowners at risk of foreclosure in the San Fernando Valley, a target area for the City's NSP program. The LAHD is working with One LA, a local community based organization, and Neighborhood Legal Services of Los Angeles to provide an incentive to lenders to reduce borrowers principal as part of a loan modification. The program will provide a loan to borrowers that receive a loan modification and principal reduction through the Obama Administration's Making Home Affordable program. The loan proceeds will be paid to the lender as a match to the amount of principal reduction provided by the lender in order to bring the borrowers monthly loan payment down to 31% of income.

Protect Residents from Foreclosure-Related Fraud – In April 2009, the City Council passed an Ordinance regulating mortgage modification consulting services. The ordinance prevents victimization of homeowners seeking to modify the terms of their mortgage loans by requiring firms that offer such services to enter into a written contract with the homeowner describing the services to be performed and that the contract notify homeowners of their rights to cancel the contract, and that no fees be charged or collected in advance of the performance of services.

Registration of Foreclosed Properties – The existence of large numbers of vacant foreclosed properties has contributed to blighted conditions in many of the neighborhoods targeted by the NSP. In many cases, these lender-owned properties are in violation of existing City code due to lack of maintenance and security. As a result, the LAHD is working with the City Attorney and

Department of Building and Safety to establish a registry of foreclosed and vacant properties to ensure that properties are appropriately secured and maintained and do not contribute to neighborhood blight. This effort will also prevent squatters from occupying foreclosed properties and other types of fraudulent activity such as schemes in which con-artists change the locks at vacant foreclosed properties, turn on the utilities, and rent the properties to unsuspecting tenants.

Tenant Protections – Rent Stabilization Ordinance – The City of Los Angeles has a Rent Stabilization Ordinance (RSO) that protects tenants from excessive rent increases and illegal evictions. Multi-family residential properties are subject to the RSO if the Certificate of Occupancy was issued on or before October 1, 1978. Under the RSO, a change of ownership resulting from a foreclosure is not considered a legal reason for tenant evictions. Thus, it is illegal for banks and loan servicers to evict tenants in RSO buildings as a result of foreclosure. In December 2008, the City Council passed an foreclosure eviction moratorium ordinance covering all housing units in the City.

RSO properties purchased with NSP funds shall be subject to the provisions of the RSO, including the applicable provisions for exemption from the RSO for housing accommodations owned by a non-profit where the accommodations are available to low income households as evidenced by a government imposed regulatory covenant with provisions consistent with those contained in the RSO.

Homeless Prevention and Rapid Re-Housing – The LAHD is also coordinating NSP activities with the Homeless Prevention and Rapid Re-Housing Program (HPRP) funding allocated to the City of Los Angeles through ARRA. The LAHD will coordinate with the Los Angeles Homeless Service Authority and other HPRP-funded agencies to ensure that affordable rental opportunities in NSP-funded properties will be made available to HPRP rapid re-housing clients, including those displaced from their homes as a result of foreclosure.

Homebuyer Assistance Programs – As stated in Factor 2, Demonstrated Capacity, LAHD operates several very successful down payment and mortgage assistance programs that include a rehabilitation component similar to the NSP Walk-in Program with Rehabilitation describe herein for the NSP. These programs have been funded with CDBG, HOME, CalHOME, MCC and local funding sources. In order to further neighborhood stabilization, LAHD will focus these programs in the NSP targeted areas to provide purchase assistance and rehabilitation for non-foreclosed homes and short sales that are not eligible under NSP. This additional investment into the non-foreclosed housing stock will contribute to more rapid stabilization in the NSP areas.

Coordinating NSP with Lead Hazard Remediation. The vast majority of homes in the NSP target areas were built prior to 1979 and are likely to contain lead-based paint. Currently, the LAHD administers multiple HUD Lead Hazard Grants. To leverage resources, LAHD will coordinate and combine NSP with Lead Hazard Grant funds to rehabilitate foreclosed homes to provide housing for low-income households. Lead abatement will be one component of the green building and healthy homes improvements incorporated into the rehab of NSP properties.

(2) *Uses of funds and firm commitments*

(a) *Indicate how you will use NSP2 funds by providing a list or table showing the amount of funds budgeted for each eligible use and CDBG eligible activity.*

A table showing the eligible use, CDBG eligible activity and amount of funds budgeted follows.

NSP-ELIGIBLE USES	CORRELATED ELIGIBLE ACTIVITIES FROM THE CDBG ENTITLEMENT REGULATIONS	AMOUNT OF FUNDS AND RESPONSIBLE ENTITY
<p>(A) Establish financing mechanisms for purchase and redevelopment of foreclosed upon homes and residential properties, including such mechanisms as soft-second, loan loss reserves, and shared-equity loans for low-and moderate-income homebuyers</p>	<p>As part of an activity delivery cost for an eligible activity as defined in 25 CFR 570.206. Also the eligible activities listed below to the extent financing mechanisms are used to carry them out.</p>	<p>\$20,000,000 Line of Credit from the REO Equity Fund; \$2,500,000 in NSP2 funds; Responsible entity for this use will be Restore Neighborhoods LA, LAHD's subrecipient.</p>
<p>(B) Purchase and rehabilitate homes and residential properties that have been abandoned or foreclosed upon, in order to sell, rent, or redevelop such homes and properties</p>	<p>24 CFR 570.201(a) Acquisition (b) Disposition, (i) Relocation , and (n) Direct homeownership assistance (as modified below); 570.202 eligible rehabilitation and preservation activities for homes and other residential properties (HUD notes that rehabilitation may include counseling for those seeking to take part in the activity).</p>	<p>\$47,500,000 in NSP2 funds; the responsible entity for this use will be Restore Neighborhoods LA. \$30,000,000 in NSP2 funds, the responsible entity for this use will be LAHD's WIP program.</p>
<p>(E) Redevelop demolished or vacant properties as housing</p>	<p>24 CFR 570.201(a) Acquisition, (b) Disposition, (c) Public facilities and improvements, (e) Public services for housing counseling, but only to the extent that counseling beneficiaries are limited to prospective purchasers or tenants of the redeveloped properties, (i) Relocation, and (n) Direct homeownership assistance (as modified below). 24 CFR 570.202 Eligible rehabilitation and preservation activities for demolished or vacant properties. 24 CFR 570.204 Community based development organizations. Any of the activities listed above may include required homebuyer counseling as an activity delivery cost</p>	<p>\$10,000,000 NSP2 funds, the responsible entity for this use will be Restore Neighborhoods LA.</p>
<p>Program Administration</p>		<p>\$10,000,000 LAHD and RNLA will share these funds.</p>

(b) Briefly describe the proposed activities in a narrative, including the range of interest rates (if any); duration or term of assistance; tenure of beneficiaries (e.g., rental or homeownership); and location or address information.

As noted previously, the City's Neighborhood Stabilization Program consists of two primary components:

1. Walk-in Purchase Assistance with Rehabilitation program (WIP); and
2. REO Bulk Purchase Program through Restore Neighborhoods LA, Inc. (RNLA)

These program components are currently in effect using NSP1 funding.

The Walk-in Purchase Assistance with Rehabilitation program (WIP) allows households earning up to 120% of AMI to purchase, as their primary residences, and rehabilitate foreclosed upon single family homes within the identified target neighborhoods. The LAHD provides mortgage assistance and rehabilitation loans using NSP funds. Properties are sold at the current market value or using the NSP2 formula, whichever is less.

Mortgage assistance is in the form of an equity share second mortgage and the rehabilitation loan is a fully deferred third mortgage due upon sale. The financing is structured in this manner to respond to the concerns of non-FHA first mortgage lenders who want to participate in the NSP but whose cap on combined loan to value (CLTV) is 100%. If the rehabilitation were to be included in the LAHD's second, equity share mortgage, the CLTV would be considerably higher than allowed. LAHD was successful in obtaining permission from FHA to provide secondary financing assistance in conjunction with the 203(b) mortgage program for properties where the CLTV is no greater than 125% for acquisition and rehabilitation loans where repayment of all LAHD loan(s) is deferred until time of sale. LAHD utilizes the HOME Program recapture rules to preserve affordability. Homes purchased must be the owner's principal residence.

The REO Bulk Purchase Program through Restore Neighborhoods LA, Inc. (RNLA) is a nonprofit housing development corporation and is LAHD's subrecipient for NSP1 and, if LAHD is successful, NSP2. It obtains bundles of foreclosed properties (both single family and rental) through the National Community Stabilization Trust at a discount from the current market value. RNLA uses both the aged property program and the Trust's First Look Program to identify, group and obtain properties. The LAHD has been working with RNLA and the NCST to establish a Line of Credit for the acquisition and rehabilitation of single family and rental properties to leverage NSP funds. (See Factor 4 Leveraging.) Single family properties are rehabilitated and sold at the NSP required sales price to eligible buyers, using the NSP2 formula or current market value to set the price, whichever is less. Homebuyers can utilize LAHD's WIP program if "gap" financing is needed.

Upon request from affordable housing developers or local public agencies, such as the Housing Authority of Los Angeles, RNLA will sell a group of single family homes to become long-term (55+ years) affordable rental units for very low income families. Single family and multi-family properties may also be bundled together and offered through a competitive Request for Qualifications (RFQ) process to mission driven organizations with demonstrated capacity and

experience to rehabilitate and maintain the properties as affordable rental housing. Developers will obtain the maximum mortgage available and RNLA/LAHD will take a fully deferred second mortgage on the property for the remainder of funds invested. The affordability term will be at least 55 years.

At least 25% of NSP2 funds will be spent on rental units restricted to and affordable by households at or below 50% AMI; the remainder will be restricted to households at or below 80%. Most of the foreclosed rental properties will be occupied at time of acquisition so there may be tenants whose incomes are up to 120% AMI. It would be extremely rare in these target areas for incomes to exceed this. Since LAHD does not want to displace tenants, these families would be able to continue to live in the property, paying the market rent. When the tenant moves, the unit will be restricted to and affordable to households at 80% AMI. Because many of the REO rental properties are small, with two to four units, LAHD has chosen not to restrict rents and occupancy of low income units to 60% AMI since the properties need to generate some cash flow to the to defray operating costs.

(c) Identify whether the other funds are firmly committed (legally obligated to a specific activity or under your control and budgeted for a specific activity).

As shown by the Commitment Letter in Appendix 3, the National Community Stabilization Trust, REO Capital Fund, is providing a Line of Credit in the amount of \$20,000,000. For a more detailed discussion, see Factor 4 Leveraging.

(d) Demolition and preservation.

LAHD is not going to undertake demolition activities with NSP2 funds.

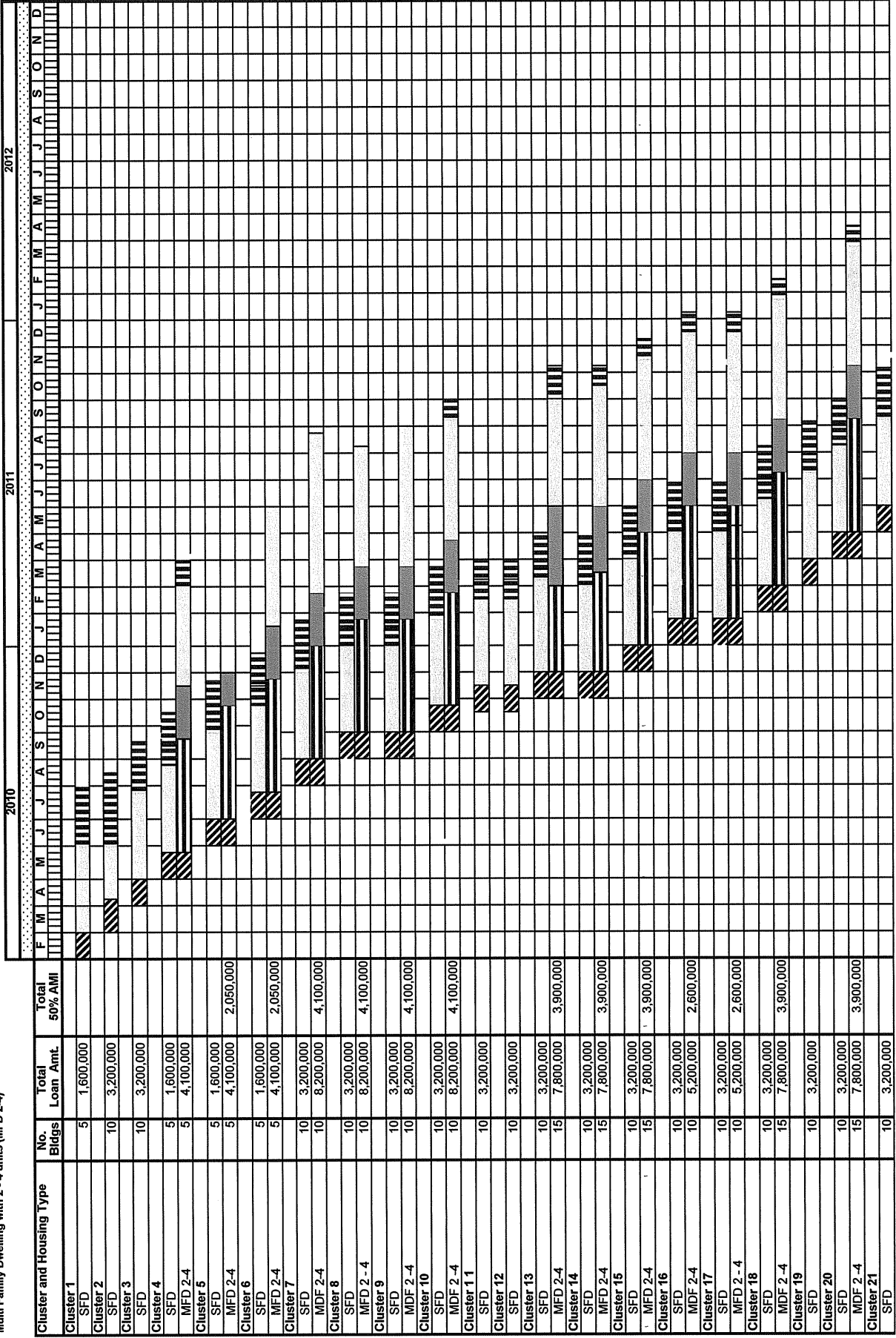
b. Project Completion Schedule

The project completion schedule on the two following pages assumes HUD grant determination by December 1, 2009 and the availability of NSP2 funds and initiation of the program by February 1, 2010. The schedule illustrates the acquisition of clusters of both single family dwellings (SFD) and multi-family dwellings (MFD) on a monthly basis over the 36 month grant period. The schedule forecasts the expenditure of NSP2 funds over the grant period and accounts for program income anticipated from the sale of properties. As required by the grant, 50 percent of grant funds will be expended within two years and 100 percent of funds will be expended within three years of the date that funds become available. At least 25 percent of the funds will be expended to assist families with income at or below 50% AMI.

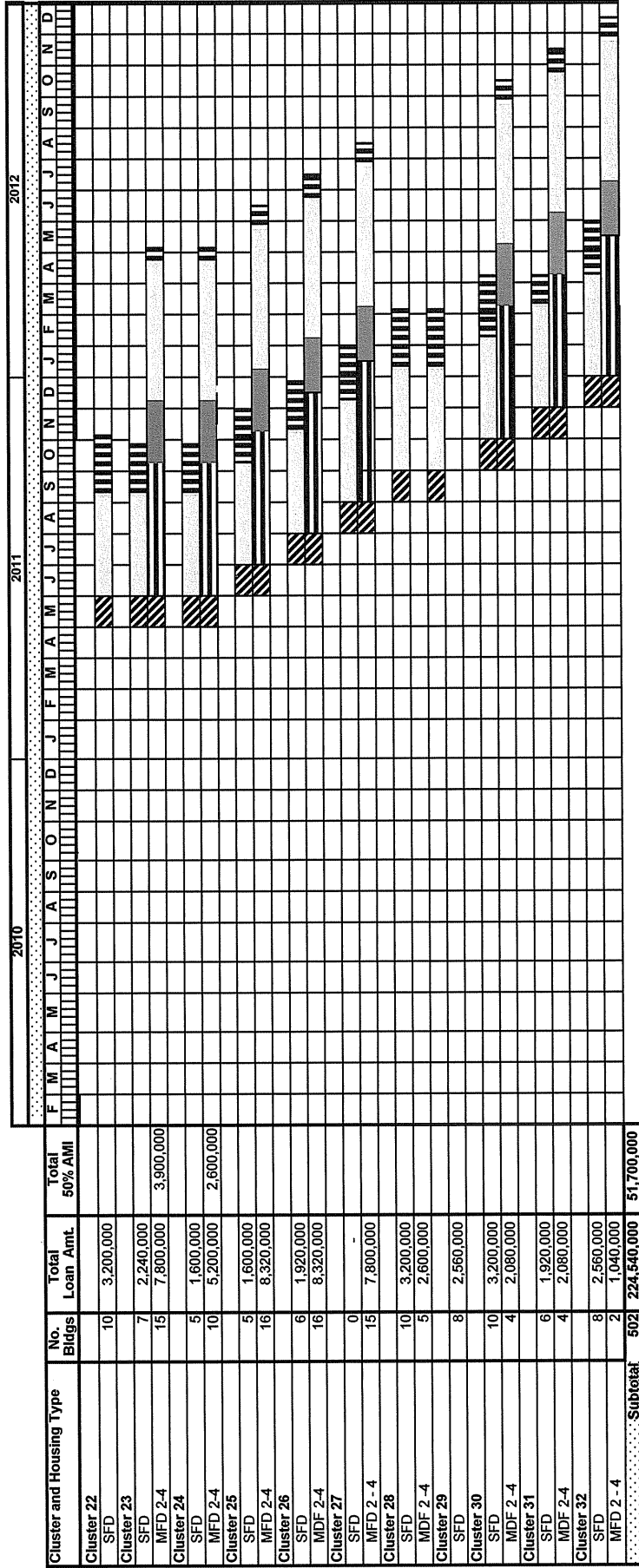
The project completion schedule forecasts the acquisition, rehabilitation and re-occupancy of over 1,200 housing units. The timeline shows monthly project milestones including developing scopes of work and selecting contractors; producing plans and obtaining financing; obtaining permits and plan approvals; construction; and marketing.

Los Angeles Neighborhood Stabilization Program 2 - Project Completion Schedule

Single Family Dwelling (SFD)
Multi Family Dwelling with 2 - 4 units (MFD 2-4)



Los Angeles Neighborhood Stabilization Program 2 - Project Completion Schedule



Cluster and Housing Type	No. Bldgs	Total Loan Amt.	Total 50% AMI	# Units
Cluster 22 SFD	10	3,200,000		265
Cluster 23 SFD	7	2,240,000		948
MFD 2-4	15	7,800,000	3,900,000	1213
Cluster 24 SFD	5	1,600,000		
MFD 2-4	10	5,200,000	2,600,000	
Cluster 25 SFD	5	1,600,000		
MFD 2-4	16	8,320,000		
Cluster 26 SFD	6	1,920,000		
MDF 2-4	16	8,320,000		
Cluster 27 SFD	0	-		
MFD 2-4	15	7,800,000		
Cluster 28 SFD	10	3,200,000		
MDF 2-4	5	2,600,000		
Cluster 29 SFD	8	2,560,000		
Cluster 30 SFD	10	3,200,000		
MDF 2-4	4	2,080,000		
Cluster 31 SFD	6	1,920,000		
MDF 2-4	4	2,080,000		
Cluster 32 SFD	8	2,560,000		
MFD 2-4	2	1,040,000		
Subtotal	502	224,540,000	51,700,000	
Total Acquisition and Rehab				
First Mortgage Revenues SF	265	53,000,000		
First Mortgage Revenues MF	237	81,528,000		
Total Revenues		134,528,000		
Costs Minus Initial Revenues		90,012,000		
NSP2 Grant minus Admin		90,000,000		

Total Single Family Dwell	Units	Total Cost/Unit	Acq/Unit
Single Family Dwell (SFD)		320,000	150,000
Total Multi Family Dwell			
Multi Fam 2-4	205,000		75,000
Rehab plus Green/unit			
\$	130,000		
\$	97,500		
\$	162,500		
	4		
	6		
	1	SF	

Average Revenue (Program Income) from Sales

- 200,000 Sale of Each Single Family Home
- 344,000 Sale of Each Multi-Unit Building

Other critical management actions for implementation of the NSP2 program include quarterly performance reporting to HUD via HUD's DRGR system; monthly monitoring of the City's non-profit sub-recipient, RNLA; quarterly internal audits or program risk assessments; and annual monitoring of properties for compliance with owner-occupancy and affordable rent requirements.

c. Income Targeting For 120 Percent And 50 Percent Of Median

The City of Los Angeles' NSP2 activities proposed in this application involve the purchase and rehabilitation of abandoned or foreclosed upon properties for the provision of affordable homeownership and rental housing opportunities to benefit persons and households whose income does not exceed 120% AMI. The homeownership activities will primarily benefit persons or households having income between 50% and 120% AMI. The rental housing activities will primarily benefit persons or households having income less than 80% AMI. In addition, at least 25 percent of NSP2 funding will be used for the purchase and redevelopment of abandoned or foreclosed upon homes or residential properties that will be used to provide affordable rental housing opportunities to individuals or families whose incomes do not exceed 50% AMI.

To ensure that the NSP2 activities meet the requirements for income targeting for 120% and 50% AMI households, LAHD staff will determine the income eligibility of program applicants by examining source documentation of annual income, such as wage stubs, tax returns, and bank statements. In addition, LAHD staff will request third party verification of income from employers, banks, the Social Security Administration and other public assistance agencies to accurately determine income eligibility.

d. Continued Affordability

Homeownership Properties

To ensure continued affordability for NSP properties sold to homebuyers as their primary residence, the City will adopt HUD's recapture provision contained in the HOME Investment Partnership Program under 24 CFR 92.254. Mortgage assistance loans provided to homebuyers will be equity share loans that bear no interest and are deferred repayment, due upon sale, title transfer, or first mortgage repayment. LAHD's equity share lien on the property requires that a portion of the appreciation in the value of the property and any equity gain resulting from a below market value purchase of the property be shared with the City upon resale of the property. This will help to ensure that properties purchased below market value are not subsequently resold or "flipped" for an excessive profit.

Additionally, the City may permit the placement of resale restriction covenants on some homeowner properties to ensure continued affordability for a period of at least 30 years. This is consistent with structure used by Habitat for Humanity programs and other organizations that may utilize RNLA as a source of homes for very low income households. Such covenants will restrict occupancy to households having income below 80% AMI and establish an affordable sales price. An assumable subordinate instrument will be placed on the property to ensure that if the home is resold, after the affordability period has ended, to a household whose income exceeds 120% AMI, any "excess profits" from the market sale will be returned to the City as program income.

Rental Properties

The City will require a minimum affordability period, consistent with HOME requirements, up to a maximum of 55 years for NSP properties occupied as affordable rental housing. To ensure continued affordability, owners of NSP rental properties will be required to enter into a Regulatory Agreement and have affordability covenants that run with the land for the duration of the affordability period that restrict the rent and income level of tenants that reside in the property. Affordable rents will be set in accordance with the HUD NSP requirements and the definition of “affordable rents” contained in this NSP Substantial Amendment.

Properties Assisted with Other Affordable Housing Funds

Affordable housing developers that acquire, rehabilitate and/or own and operate rental properties assisted with NSP funds, may obtain other federal, state, or local affordable housing funding resources to leverage the NSP funds. If these funds also have affordability requirements, the restricted rents for units subsidized by these funds will be established at the NSP Affordable Rents (described above) or those rents required for the affordable housing funds, whichever is lower.

e. Consultation, Outreach, CommunicationsConsultation in Developing NSP Proposal

In preparation of City of Los Angeles’ NSP, the LAHD established a working group of housing experts, local academics and the Federal Reserve to acquire and analyze data to understand the foreclosure crisis in Los Angeles. Much of the data and maps included in this application resulted from meetings with this working group.

The LAHD has also presented its NSP plan to representatives of the State of California and County of Los Angeles. In addition, LAHD has held meetings with several community organizations and housing advocates to receive input and feedback for preparation of the NSP. These organizations include:

HIV & AIDS Legal Services Alliance, Inc. (HALSA)	Legal Aid Foundation of Los Angeles
Southern California Association of Non-Profit Housing	Los Angeles Center for Law and Justice
Asian Pacific American Legal Center (APALC)	Bet Tzedek
Assoc. of Community Organizations for Reform Now (ACORN)	Coalition for Economic Survival
Los Angeles Neighborhood Housing Services (LANHS)	Public Counsel
East Los Angeles Community Corporation (ELACC)	A New Way of Life
Venice Community Housing Corporation (VCHC)	Inquilinos Unidos
Strategic Actions for a Just Economy (SAJE)	California Community Foundation
Habitat for Humanity of Greater Los Angeles	New Directions
California Community Reinvestment Corporation (CCRC)	Enterprise Community Foundation
National Community Stabilization Trust	LA County Department of Mental Health
National Association of Minority Contractors	Building Industry Association

The input from these organizations highlighted the following themes that influenced the design and implementation of the City's Neighborhood Stabilization Program.

- Focus resources in the areas of greatest need in the City;
- Preserve affordability in rental properties;
- Minimize dislocation;
- Protect tenants from eviction;
- Assist low-income renters and homeowners; and
- Leverage NSP funding.

The LAHD has also met with lending institutions, real estate professionals and homebuyer educators to introduce the program and receive guidance and feedback to ensure successful implementation of the NSP in Los Angeles. Currently, LAHD staff hosts lender and realtor trainings twice monthly and has trained over 400 lenders and realtors on the NSP program requirements.

LAHD will remain in consultation with these agencies during program implementation through the continued NSP meetings and trainings. Quarterly meetings will continue with developers and social service providers seeking rental housing opportunities RNLA

Outreach and Affirmative Marketing Actions

To ensure that qualified families are available as NSP2-assisted units become available, LAHD has established and will maintain extensive partnerships with local lenders, real estate professionals and homebuyer education providers. As stated above, LAHD host twice monthly NSP trainings and has educated over 400 lenders and realtors on the NSP program. These trained professionals along with the HUD-certified homebuyer education providers refer clients to the NSP program.

LAHD staff is implementing a marketing plan that includes presenting NSP opportunities at homebuyer education classes and real estate associations within the NSP targeted areas, preparing public service announcements in multiple languages, and listing the availability of properties on the City's NSP web-site established specifically for the program (<http://lahd.lacity.org/nsp/>).

Transparency

The LAHD NSP web-site provides program information for homebuyers participating in the NSP, including program requirements and guidelines, lists of participating lenders and homebuyer educators, and maps of the NSP priority areas. In addition, potential homebuyers and realtors may use the site to determine if specific residential properties are located in eligible NSP areas. This site will be used to continually communicate program design, progress, opportunities and results to the public. NSP policies, including grievance procedures will posted on the site for local citizens and other interested parties. The site will also provide information regarding RNLA and the availability of affordable NSP properties for purchase or rent.

Affirmative Marketing

LAHD will require that all NSP properties be affirmatively marketed in accordance with the City's Affirmative Marketing and Goals and Procedures (See at <http://lacity.org/lahd>). The City's Affirmative Marketing procedures require property owners to advertise the availability of housing units in a manner that reaches persons least likely to know about affordable housing opportunities available to them and irrespective of race, color, sex, sexual orientation, disability, familial status, or national origin. Affirmative Marketing requirement will be contained within the NSP Project Regulatory Agreements.

f. Performance And Monitoring

(1.) Monitoring Plan

LAHD operates two NSP programs:

- Walk-in Purchase Assistance with Rehabilitation (WIP) program for homebuyers with incomes up to 120% AMI. This program is operated by LAHD. Individuals, interested in purchasing REO property as their principal residences and need gap financing for purchase and/or rehabilitation, find an REO property, negotiate the discount, obtain a standard 30 year fixed rate mortgage from a participating LAHD lender, qualify for gap financing, and purchase and rehabilitate the property.
- Restore Neighborhoods LA, Inc. (RNLA) purchases of REO properties in bulk from lenders through the National Community Stabilization Trust (NCST). The aim of RNLA is to make a substantial impact on neighborhoods by restoring the worst properties to attractive ownership and rental uses. RNLA rehabilitates and resells REO and vacant properties to homebuyers to increase ownership opportunities or acquires, rehabilitates and resells properties to housing or service provider organizations through a RFQ process to be maintained as long term affordable rental housing for very low and lower income families

LAHD's LIPAR and MIPAR programs, purchase assistance and rehabilitation programs for first time low- and moderate-income homebuyers, have been operated very successfully by LAHD for the past five years. Although those programs did not focus on REOs, the processes and procedures are basically the same as the NSP WIP. The programs have tight accounting and management controls and the LIPAR program has been audited by HUD with no findings or concerns identified. The MIPAR program served households with incomes greater than 80% AMI and used non-HUD funds so it was not audited by HUD. LAHD and its internal auditor will monitor this program on a semi-annual basis to ensure that it is proceeding according to plan and to assure that there are no areas of risky program operations.

RNLA is a relatively new entity, administering millions of dollars to carry out the complex process of acquiring, rehabilitating and reselling properties. Although LAHD has put many safeguards and cross-checks in place and RNLA has hired as its Director a person with extensive experience in acquiring, rehabilitating and reselling foreclosed properties, the organization itself will have only six months experience with this program when NSP2 funds are scheduled to be awarded. Applying the five factor HUD risk rating system, RNLA can be rated as high risk on the financial, physical, and management factors. Therefore, the focus of this monitoring plan will be RNLA and its activities as a NSP subrecipient. *Due to the compressed timeframe for*

expending NSP2 funds, the amounts to be expended and the potential for fraud, waste and mismanagement, RNLA will be monitored on a monthly basis. Desk reviews will be conducted monthly and on-site reviews on a quarterly basis.

LAHD will monitor RNLA in the areas of general management, performance goals, financial management, data collection and reporting, eligibility determinations, nondiscrimination, program outreach, timely reporting, coordination with other programs, and acquisition, rehabilitation and resale of properties. In addition, RNLA will be monitored for compliance with specific program requirements, including applicable federal requirements, such as handicapped accessibility, fair housing, lead-based paint, and Davis-Bacon.

MONITORING OBJECTIVES

1. To determine if RNLA is carrying out its individual activities, as described in the Subrecipient Agreement, on time and on budget.
2. To determine if RNLA is charging costs to the project that are eligible under applicable laws and regulations, and are reasonable in light of the services or products delivered.
3. To determine if RNLA is conducting its activities with adequate control over program and financial performance, and in a way that minimizes opportunities for waste, mismanagement, fraud, and abuse.
4. To identify potential problem areas and to assist RNLA in complying with applicable laws and regulations.
5. To determine if any conflicts of interests exist in the operation of the NSP program.
6. To ensure that required records are maintained to demonstrate compliance with applicable regulations.

More details on the Monitoring Plan can be found at www.lacity.org/lahd, including a discussion of how the following elements will be monitored: financial activities; acquisition, rehabilitation re-sale of properties; reporting, and other HUD requirements.

(2.) Internal Audit Requirements

As defined by the Institute of Internal Auditors (IIA),

“Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

The Internal Auditors' roles include monitoring, assessing, and analyzing organizational risk and controls; and reviewing and confirming information and compliance with policies, procedures, and laws. Working in partnership with management, internal auditors provide ...executive management assurance that risks are mitigated and that the organization's corporate

governance is strong and effective. And, when there is room for improvement, internal auditors make recommendations for enhancing processes, policies, and procedures."

LAHD will hire a consulting firm with expertise in HUD programs to serve as its Internal Auditor so that a number of people with expertise in multiple areas will be available as needed. The Internal Auditor (IA) will report to the Assistant General Manager for Administration (AGM) and have a "dotted line" relationship with the Executive Officer and General Manager. This configuration places the IA outside of the NSP operations hierarchy with a direct communications channel to the General Manager. The AGM is responsible for grants, budgeting, accounting, personnel, and information systems. Staff of these units will be available to the IA upon request. However, it is expected that the IA will utilize its own staff with expertise in HUD program requirements and compliance, accounting, and rehabilitation construction. The IA will have continual remote access to the HIMS database in which staff enter all aspects of every transaction on a daily basis as activities take place as well as access to all reports.

The IA will conduct on-site reviews quarterly and desk audits on a schedule it designs based on the risk assessment and will update the AGM, General Manager and Director of Neighborhood Stabilization on a quarterly basis. However, if the IA has concerns about any program activity or transaction, it is required to inform LAHD immediately so that the issue can be resolved.

LAHD's Internal Auditor will be ICF, International's San Francisco Office, a consulting firm well known for its expertise in CDBG and HOME programs. The effort will be led by Carole Norris, Vice President. ICF will undertake this function for NSP1 and will utilize their services for NSP2 (if awarded). ICF will be authorized to:

- Have unrestricted access to all functions, records, information, property, and personnel; Grants and Administration;
- Select subjects and determine audit scopes;
- Have a full and free access to senior management;
- Obtain the necessary assistance of personnel within LAHD, as well as other specialized services from outside the organization, to assist in the conduct of planned audits.

ICF will use the five factor rating system developed by HUD and described in CPD Notice 02-11 to assess the risk of various aspects of the NSP. Furthermore, it will use the sub-factors identified in that Notice that are consistent with those described in the "HUD Monitoring Desk Guide (Training Edition). The sub-factors that will be used for each risk factor are:

1. Financial: program income, timeliness, frequency or need for budget adjustments, size of grant amount, timely submissions of financial information, and expenditures.
2. Physical: Physical conditions of REO properties at purchase and after rehabilitation and the acquisition, construction and rehabilitation of assets.

3. Management: Program complexity, compliance issues, staff capacity and oversight, results of prior OIG and CPD audits of the grantee, program design.
4. Satisfaction: Citizen complaints and grantee responsiveness.
5. Services: Meeting program objectives, relocation, environmental, and program progress.

The results of the risk analysis process will be used to produce a work plan used to examine LAHD's NSP program, particularly the operations of RNLA, and evaluate the policies, procedures, and systems which are in place to ensure: the reliability and integrity of information; compliance with policies, plans, laws, and regulations; appropriate use of construction techniques, methods, and materials and the safeguarding of assets; and, the economical and efficient use of resources.

FACTOR 4. LEVERAGING OTHER FUNDS OR REMOVAL OF SUBSTANTIAL NEGATIVE EFFECTS

a. Leverage

National Community Stabilization Trust/REO Capital Fund will provide a \$20 million dedicated Revolving Line of Credit to LAHD's subrecipient, RNLA, to use to acquire and rehabilitate residential properties. See Appendix 3 for a copy of the Commitment Letter. The City of Los Angeles is participating, and intends to participate for NSP2, in the REO property acquisition and leveraged financing programs offered by the National Community Stabilization Trust (Stabilization Trust). These activities are complementary with and non-duplicative of neighborhood stabilization activities that LAHD is undertaking locally. In order to participate in the financing programs offered by the Stabilization Trust, we intend to establish a financing approach consistent with HUD NSP requirements which, through collaboration with the Stabilization Trust, will leverage significantly more private loan capital to finance the acquisition and rehabilitation of vacant and foreclosed homes than would be possible without coordination with the Stabilization Trust. The Stabilization Trust's NSP2 webpage is (www.stabilizationtrust.com).

The primary product that will be utilized is the Acquisition and Rehabilitation loan product. The maximum term will be for approximately 24 months, although the majority of properties purchased will be acquired, rehabilitated and resold within a 12 month period. LAHD will provide a loan loss reserve of 12.5% for each loan obtained through the Fund. Because the costs of acquisition and rehabilitation are expected to initially exceed the property's market value after rehabilitation, it is expected that approximately one quarter of the total development costs will remain as an investment in the property not recovered through the sale.

Using the formula provided in the NSP2 NOFA, the leverage ratio is 0.20, since \$20 million appears to be a relatively small number when viewed in the context of \$100 million. However it is a very significant amount in terms of its ability to impact neighborhoods. The Line Of Credit will allow 112 more blighted homes to be acquired and rehabilitated than would be possible with the NSP2 grant alone. Likewise, the Line of Credit will allow the acquisition and rehabilitation of 421 more affordable rental units serving families for the next 55 years. LAHD

believes that these represent substantial investments in the community and that we should be awarded full points for leveraging due to the number of REO properties that can be returned to service, improving the attractiveness of neighborhoods.

b. Removal Of Substantial Negative Effects

As discussed previously, LAHD'S primary goal is to acquire and rehabilitate the worst REO housing in middle and lower income neighborhoods to turn these negative impacts into positive neighborhood attributes. Reviewing the US Postal Services' vacant properties survey (total_90_day_vacant_residential_addresses), there were 3612 vacant residential units among the 164 census tracts in the NSP2 target areas.

Using NSP2, LAHD is going to acquire, rehabilitate and re-sell to homebuyers and affordable housing organizations approximately 1,212 units. Some of the small rental buildings will have tenants in residence. Assuming that none of the single family homes and 212 rental units are occupied, then using the Rubric:

1000 vacant units acquired and rehabilitated by LAHD times 1.5 equals 1500
divided by 3612 vacant residential units in target areas equals 42%

However, it is clear that there are substantial differences in the number of vacant properties within the geographic regions that make up the City's NSP2 target areas. For example, out of 3,612 vacant residential properties located throughout the target areas, 237 properties are located in Watts (population 22,847) in South LA; while there are 3 vacant properties located in Pacoima (population 75,014) in the Northeast Valley and 19 in Boyle Heights (population 92,617) in East LA.

Unless the neighborhood is small, purchasing a percentage of distressed homes alone will not halt neighborhood decline. Vacant properties need to be purchased based on their appearance and location within the neighborhood. There are more than 100 vacant properties in East LA. For the most part, these properties are scattered among the blocks and not clustered, having relatively little impact on the neighborhood. Whereas, in Watts, there are many clusters of blighted properties. These clusters have a much larger impact on the neighborhood than scattered vacant properties do which is why LAHD is committed to purchasing clusters of the worst properties in high impact areas.

FACTOR 5: ENERGY EFFICIENCY IMPROVEMENT AND SUSTAINABLE DEVELOPMENT FACTORS

Describe how you will incorporate specific energy efficient, environmentally friendly or other sustainable or green elements in some or all of your NSP2 activities.

a. Transit accessibility

All proposed NSP2 target areas are serviced by the Los Angeles County Metropolitan Transportation Authority (METRO). METRO has a comprehensive bus and rail system that includes local and limited bus lines, rapid transit lines, area focused-transit way service, express lines, shuttles and circulators, rail lines and a commuter line—all running with a frequency of 20 minutes or less during peak hours. Peak hours are 7am-9am and 4pm-7pm on weekdays. All

census tracts within the NSP2 target areas are accessible to local transit lines. The NSP2 target areas located in the San Fernando Valley have access to the Metro Liner Service (Commuter Train). Target areas located in South LA and Mid-City and Downtown Adjacent areas of Los Angeles have access to the Blue, Green, Purple, and Red rail lines. Additionally, the City of Los Angeles Department of Transportation enhances the METRO service with several localized DASH routes throughout the City of LA, including many of the selected NSP2 target areas. (METRO service and DASH service maps for the NSP2 target areas follow this page).

b. Green building standards. For the NSP, the LAHD rehabilitation construction specifications have been modified to incorporate green features to address key areas such as energy efficiency, water efficiency, indoor air quality, and effective resource management. As part of the modification, an Energy Star products requirement has been added to all specifications that deal with energy efficiency.

In addition, the LAHD has worked with Enterprise Community Partners to incorporate Green Communities Criteria into the rehabilitation specifications for NSP properties. Examples of specs that now incorporate these green elements include: Energy Star rated low-e windows; water conserving fixtures such as dual-flush toilets and low-flow faucets and showerheads; including materials such as the Carpet and Rug Institute's Green Label certified carpet; and the use of paints, sealants, and adhesives that contain low or zero Volatile Organic Compounds (VOCs). LAHD's rehabilitation specifications are provided at <http://www.lacity.org/lahd>

On moderate rehabilitation projects, these key areas will be addressed to the extent applicable to the work that will be performed. For substantial rehabilitation of NSP properties, LAHD will adhere to the *Green Communities Standard*.

c. Re-use of cleared sites. The goal of the City of Los Angeles' NSP is to preserve and extend the supply of housing affordable to low and moderate-income residents. As such, the City does not intend to demolish or convert residential properties purchased with NSP funds to non-residential uses. In the unforeseen situation that a residential property requires demolition, the demolition site will be re-used within the term of the NSP2 grant as replacement housing.

Los Angeles County Metropolitan Authority (MTA) Transportation Services in NSP2 Targeted Areas

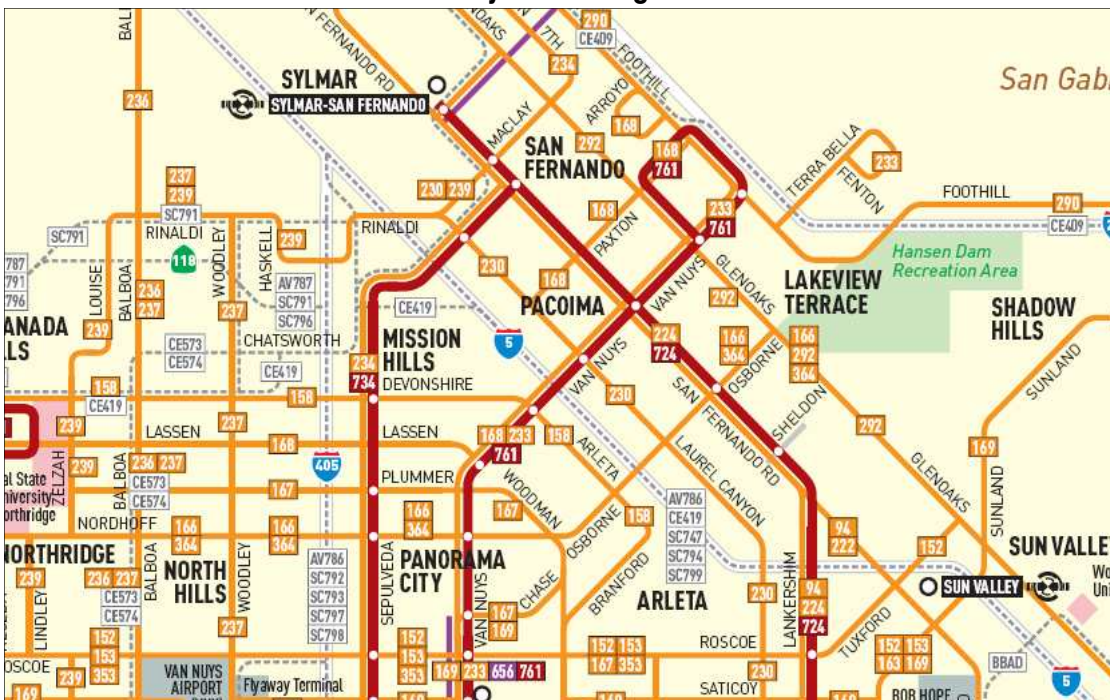
South Los Angeles NSP2 Targeted Areas



Eastside NSP2 Targeted Areas



San Fernando Valley NSP2 Targeted Areas



System Map

M Metro

Metro Local or Limited Line	60	Metro Express Line	468
Metro Shuttle Line	83	Metro Rapid Line & Stop	740
Municipal Bus Line	MTD	Transit Center	
Metro Rail Line & Station		Metro Customer Center	
Metro Liner & Station		Metro Rail Station & Entrance (Downtown LA)	
Transitway & Station		Tourist Attraction/ Sports Venue	
MetroLink Station		Shopping Area	
Amtrak Station		School/College/University	
Interstate Freeway	5, 10, 15, 210, 215	Point of Interest	
US Highway or Freeway	101, 105, 118, 138, 148, 166, 210, 215	Airport/Civic/Government	
State Highway or Freeway	14, 60, 62, 64, 66, 68, 70, 72, 74, 76, 78, 80	Park	

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South Los Angeles NSP2 Targeted Areas

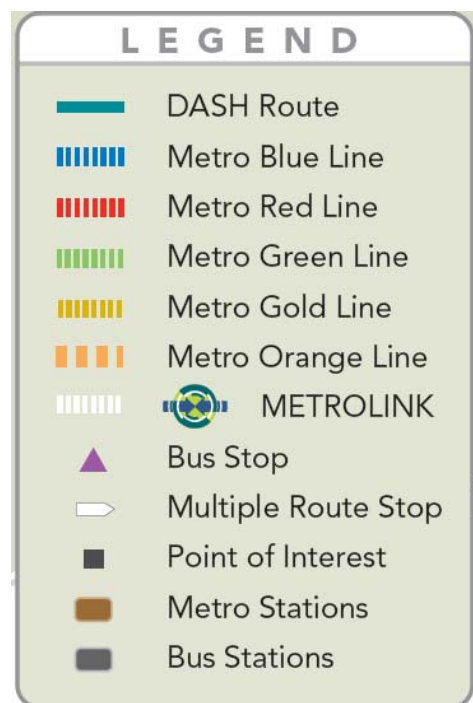


Los Angeles City Dash Transportation Services in NSP2 Targeted Areas

Eastside NSP2 Targeted Areas



San Fernando Valley NSP2 Targeted Areas



d. Deconstruction. In accordance with local building codes, for substantial rehabilitation of NSP properties, LAHD will require the salvage and reuse of wooden framing members and metals, such as hold down brackets that are appropriate size and not physically damaged. For historically significant properties, LAHD will require the reuse of building components that contribute to the historic nature of the property.

In addition, the City of Los Angeles Bureau of Sanitation has created a recycling guide for construction and demolition. As part of the NSP program, the LAHD will require that contractors send all construction waste to a Certified Mix Debris Processing Facility; these facilities accept mixed construction and demolition debris, then sort the debris and send the recyclable materials to the appropriate recyclers and end users. In the event that demolition is necessary (e.g. an illegal structure on a property), the LAHD will require contractors to deconstruct the structure, segregate the recyclable materials, then send the recyclables to the appropriate recycling facilities. To facilitate this process, LAHD will direct contractors to the Bureau of Sanitation's website where they can find a downloadable version of the *Construction and Demolition Recycling Guide*. This guide provides background information on construction and demolition recycling and lists the various recycling facilities in the Los Angeles area.

http://www.lacity.org/san/solid_resources/pdfs/C&D_guide.pdf

e. Other Sustainable Development Practices. LAHD will retrofit every substantial rehabilitation property for energy and water efficiency. This will include sealing of the building envelope, adding insulation to the walls, attic, and floors where necessary, installing Energy Star qualified windows and lighting, sealing all HVAC ducts (if applicable), as well as installing high efficient water fixtures such as toilets, faucets, and showerheads. The LAHD will require that a certified HERS (Home Energy Rating System) rater conduct a pre-construction energy audit and subsequent field verification and diagnostic testing after rehabilitation to verify that the building envelope and ducts are performing at a satisfactory level.

6. FACTOR 6: NEIGHBORHOOD TRANSFORMATION AND ECONOMIC OPPORTUNITY

The Southern California Association of Governments (SCAG) is the largest regional Metropolitan Planning Organization (MPO) in the nation. SCAG represents six counties (Los Angeles, Orange, San Bernardino, Riverside, Ventura and Imperial) and 188 cities that make up the Southern California region. In its role as a MPO, SCAG has authority to develop short- and long-term comprehensive regional plans for transportation, housing, and air quality that conform to state and federal standards. It is also responsible for implementing the state Regional Housing Needs Assessment plan for Southern California to establish goals for future housing needs.

The City of Los Angeles' General Plan serves as input to SCAG's regional plans and provides a context for cooperative planning efforts between the City of Los Angeles, adjacent cities, and the six county region. The City's Housing Element of the General Plan has been determined consistent with SCAG's Regional Housing Needs Assessment and approved by the State of California. The LAHD's NSP activities to acquire, rehabilitate and re-sell foreclosed properties to qualified buyers are specifically referenced in the City's Housing Element as part of its policy

objective to preserve quality rental and ownership housing that is affordable to households of all income levels and special needs.

The City's Transportation Element of the General plan is consistent with SCAG Regional Transportation Plan and is also approved by the State of California. The LAHD's NSP activities are consistent with the Transportation Elements objective to preserve the existing character of lower density residential neighborhoods.

Below are web-links to the City's Transportation and Housing Elements of the General Plan as well as links to SCAG's Regional Housing Needs Assessment and Regional Transportation Plan.

City of Los Angeles – Housing Element of the General Plan

- http://cityplanning.lacity.org/HousingInitiatives/HousingElement/HsgElement06-08_Aug13web.pdf

City of Los Angeles – Transportation Element of the General Plan

- <http://cityplanning.lacity.org/cwd/gnlpln/transelt/index.htm>

SCAG – Regional Housing Needs Assessment and Methodology

- http://www.scag.ca.gov/Housing/pdfs/rhna/RHNA_FinalAllocationPlan071207.pdf
- http://www.scag.ca.gov/Housing/pdfs/rhna/RHNA_Methodology_rc020107.pdf

SCAG – Regional Transportation Plan

- http://www.scag.ca.gov/rtp2008/pdfs/finalrtp/f2008RTP_Complete.pdf