



Metro™

July 6, 2005

TO: BOARD OF DIRECTORS

THROUGH: ROGER SNOBLE
CHIEF EXECUTIVE OFFICER

FROM: TERRY MATSUMOTO
EXECUTIVE OFFICER, FINANCE & TREASURER

SUBJECT: CONSTRUCTION ENHANCEMENT LOAN PROGRAM

ISSUE

This report provides the annual status of the Construction Enhancement Loan Program (CELP) as of June 30, 2005.

As of June 30, 2005, one loan with a balance of \$4,333.00 remained outstanding. During the past fiscal year, two loans paid off for a total reduction in the program during the year of \$1,368,169.

BACKGROUND

In November 1992 the MTA Board adopted Resolution 134 that authorized the creation of the CELP Loan Fund up to a program maximum of \$25,000,000 for collateral to support loans to businesses and property owners affected by Metro's Redline construction right-of-ways. Over the course of the program, twelve loans totaling \$5,937,000 were funded. Eight loans have been paid off, three have been written off (loss of \$145,766) and one remains outstanding.

Three types of loans were provided under the CELP:

- Program I: Commercial Loans up to \$50,000
- Program II: Commercial Loans from \$50,001 to \$300,000
- Program III: Property Secured Loans to \$1 Million

The program's funding was derived from Proposition A 35% Rail sales tax revenue.

The criteria for awarding loans varied depending upon the type of loan and the financial institution. Listed below are the minimum requirements:

1. Property must be located within the Metro Rail construction area.
2. Business must be within Metro Rail construction area for at least one (1) year prior to construction in the impacted area.
3. A minimum of two (2) years of financial statements must be presented in a form satisfactory to the reviewing financial institution.

4. For Program I & II loans, a first priority lien must be obtained on inventories, accounts receivable, etc. A personal guarantee is required. For Program III loans, a first or second lien on real property. A personal guarantee is required.
5. For Program III loans, the loan to value ratio may not exceed 80% (based on the aggregate of all encumbrances to appraised value).

Five local financial institutions were selected to administer and underwrite the program on behalf of the MTA. MTA personnel had no role in determining credit worthiness. The five institutions involved in the program were:

- Broadway Federal Savings Bank
- East-West Bank
- Family Savings Bank
- Founders National Bank
- Republic Bank

On February 17, 1998, the CELP program was suspended consistent with MTA focusing on its core business. The Treasury Department notified the CELP partner banks that MTA would no longer provide collateral on new loans.

As of June 30, 2005, One United Bank, formerly Founders National Bank, was the only financial institution with an outstanding CELP loan, a Program I loan with an initial loan amount of \$50,000 issued to G. B. Harb & Sons. The loan matures on January 26, 2007.

NEXT STEPS

None. Because the last loan has a small balance set to pay off by January 2007, no further reporting is required.

Prepared by: Mary E. Morgan, Principal Financial Analyst