APPROVED
by the Board of Directors of
The Metropolitan Water District
of Southern California
at its meeting held

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METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

EXECUTIVE SECRETARY

December 21, 1994

To: (Finance and Insurance Committee--Action)
Board of Directors (Land Committee--Action)

From: General Manager

Subject: Authorization to Renegotiate Terms of Purchase Money Promissory Note for Surplus Parcel 140-5-29 and 35 (Lake Mathews)

Report

On April 13, 1988, Metropolitan sold a 7.78 acre vacant portion of its former Lake Mathews surplus land holdings located outside the ecological reserve area north of El Sobrante Road, about 0.75 miles from the intersection with Mockingbird Canyon Road, Riverside County (see attached map). The purchaser, The Friendly Group II Limited Partnership (K. S. Chen, General Partner), purchased with a seller financing arrangement. The Friendly Group II Partnership was the only bidder at the appraised value of $135,000 (reflecting $17,352/acre).

The terms of the sale required a $89,100 cash down payment (66% down), with a $45,900 purchase money note secured by a trust deed with interest accruing at 12.75% per annum for a 10-year period on a fully amortized basis.

After the sale, Friendly Group II has reportedly proceeded to rezone the property from 2.5 acre minimum lot size to 1.0 acre minimum lots. No other known or observed material changes have been made to the property in the interim and no other liens have been recorded on the property in the interim. The property is not currently developable due to the prohibitive cost of extending domestic water service to the area. Presently, the property does not have water service although local water resources of the El Sobrante Mutual Water District may be available for citrus cultivation only. The property is also subject to the Lake Mathews Area Master Drainage Plan.

Since June 1, 1994, the buyer has not paid the outstanding principal and interest due on the note. Metropolitan's Finance Division promptly requested that all payments in arrears be brought current. In early November, 1994, this matter was brought to the attention of the Real Property Branch of the Engineering Division, whereupon foreclosure proceedings were initiated. In response to the threat of foreclosure, Metropolitan received two $678.59 monthly payments on November 21, 1994, and on December 16, 1994, which were applied to late penalties and accrued interest. As of January 1, 1995, the amount of principal remaining on the loan will be $25,900.36 and $850.45 is owed on accrued interest in arrears. This reflects only 20 percent of the original purchase price.

On December 2, 1994, Metropolitan notified the Friendly Group II Partnership, through its General Partner Mr. K. S. Chen, that under provisions of the trust deed that it was accelerating the loan and demanding all remaining principal balance, accrued interest, and penalties due and payable immediately. On December 13, 1994, Mr. Chen met with Metropolitan's representatives and stated that he cannot meet its demand to call the entire indebtedness on the property at this time because: (i) of the economic recession, (ii) noncontribution of limited partners, (iii) the decline in land values below the loan value, and (iv) the inability to obtain an equity loan on bare land. Mr. Chen has requested forbearance by Metropolitan on the outstanding debt.

If Metropolitan pursues foreclosure of the property, it is likely that the property owner will seek protection under Federal Bankruptcy Laws. Metropolitan would also incur costs in pursuing its foreclosure remedies.

As an alternative, Metropolitan could work with the buyer to reschedule the loan balance which will reduce the amount of the monthly payments. By extending the loan period, the payments could be lowered but the present value of the sums due Metropolitan would remain the same. However, approval of your Board is required to extend the loan term over the 10 year maximum term provided under Section 8249 of the Administrative Code. The proposed modified loan would be on a fully amortized basis and the interest rate of 12.75 percent would remain the same due to the risks associated with restructuring the loan. All lost interest on the loan and any added title or escrow costs will be added to the principal of the loan by mutual agreement with Mr. Chen.

Other than the proposed modification of the Note, Metropolitan will not waive any of its other recourse rights to recover any sums due provided in the Note and Trust Deed. Neither will modification of the existing Note compromise the priority First Trust Deed position of Metropolitan's beneficiary interest in the property.

Recommendation

It is recommended that the General Manager be granted authority to modify the existing promissory note and trust deed on the above-referenced property to include: (i) increasing the principal for any lost interest and associated costs to modify the note; and (ii)extending the loan payment period.

John R. Wodraska
General Manager

Submitted by:

Gary M. Snyder
Chief Engineer

Concur:

John R. Wodraska
General Manager

WCL/wbetb66