

Memorandum



CITY OF DALLAS

DATE January 3, 2014

TO Housing Committee Members: Carolyn R. Davis, Chair, Scott Griggs, Vice-Chair, Monica Alonzo, Rick Callahan, Dwaine Caraway, and Philip Kingston

SUBJECT Jubilee Park & Community Center Corporation – Non-Recourse Language Request

On Monday, January 6, 2014, you will be briefed on Jubilee Park & Community Center Corporation – Non-Recourse Language Request. A copy of the briefing is attached.

Please let me know if you have any questions.

A handwritten signature in black ink that reads "Theresa O'Donnell". The signature is fluid and cursive.

Theresa O'Donnell
Interim Assistant City Manager

c: The Honorable Mayor and Members of the City Council
A. C. Gonzalez, Interim City Manager
Rosa A. Rios, City Secretary
Warren M.S. Ernst, City Attorney
Craig Kinton, City Auditor
Judge Daniel Solis, Administrative Judge
Ryan S. Evans, Interim First Assistant City Manager
Forest E. Turner, Assistant City Manager
Jill A. Jordan, P.E., Assistant City Manager
Joey Zapata, Assistant City Manager
Charles M. Cato, Interim Assistant City Manager
Jeanne Chipperfield, Chief Financial Officer
Frank Libro, Public Information Officer
Bernadette Mitchell, Housing/Community Services, Interim Director
Elsa Cantu, Assistant to the City Manager – Mayor and Council

Jubilee Park & Community Center Corporation

Non-Recourse Language Request

Housing Committee

January 6, 2014



What is a non-recourse loan?

- A loan secured by the pledge of collateral
 - In this case, vacant single family lots
- The borrower has no personal liability
- If the borrower defaults on the loan the City can foreclose on the collateral property, but cannot take any other action against the borrower

What is the risk to the City?

- In a typical recourse loan, the lender can *either* foreclose the property or sue on the note. In a non-recourse loan, the lender can *only* foreclose on the property.
- Since the City's only recourse in the event of default is to foreclose on the property, the City assumes the risk that the foreclosed property is worth less than the loan balance.
 - Typically a lender can take action against the borrower for any amount still owed after the property is foreclosed (the “deficiency”). In a non-recourse loan, the City waives this right.

“Bad Boy” Carve Outs

- To mitigate the risks of non-recourse deals lenders can negotiate exceptions to transfer liability back to the borrower for certain “bad boy” behaviors.
- Examples: Losses related to fraud, waste, misrepresentation, misapplication of funds, insolvency of borrower, nonpayment of taxes/insurance, prohibited transfers, etc.

Are non-recourse loans typical?

- Staff can only remember one other time when non-recourse language has been used, and that was in a 2008 loan with this same borrower.
- Non-recourse language is not part of our typical documentation.

City Attorney's Advice

- Non-recourse language is “legal.” The inclusion of such language is a business decision.
- However,
 - It is not a typical business term for our deals
 - It was not discussed in the earlier council resolution approving the transaction
 - It involves some risk to the City
- Because of this, a new council resolution was required in order for the Housing Department to describe the requested non-recourse language and explain why it should be approved for this specific deal.

Questions?