

Local role in upturn sought Partnership switches gears

By Matt Wrye
Staff Writer

A proposed public-private partnership that could shape the Inland Empire's economy for years to come is focusing its energies elsewhere after the Treasury Department announced in mid-November that it won't be buying distressed real-estate assets from troubled banks and selling them off.

City and business leaders who are behind the yet-to-be-formed partnership — the Inland Empire Economic Recovery Corp. — were initially lobbying Treasury Secretary Henry Paulson, but now they're at the mercy of the Federal Deposit Insurance Corp.

The FDIC recently said it will recognize the recovery corporation as a competitor when it sells off mortgage assets from seized banks, according to Lance Larson, legislative director for San Bernardino County.

"We have yet to see how the Treasury Department and bad mortgages are going to play out, but with the FDIC ahead of the game, we've switched our tactics," Larson said. "We realized (the FDIC and us) both have common goals, as opposed to a treasury secretary who wants to give money to banks."

In theory, the economic recovery corporation would

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buy assets from the FDIC and sell them to Los Angeles-area investors for higher prices than if the FDIC sold them direct.

It would halt huge real-estate losses that local developers and financiers could expect if the government directly sold the assets at fire-sale prices, and it would also lessen the blow to local government property-tax revenues.

"Clearly, these guys aren't doing this for altruism," said Barry Gross, president of Irvine-based Developers Research, a consulting company that does research on Inland Empire real estate. "I really believe that provides a (price) floor for investors."

Real-estate developers, financial gurus, business owners and politicians behind the recovery corporation were initially preparing for a worst-case scenario, where the Treasury Department bundles thousands of empty properties together and unloads them on the market at massive discount prices.

That would devastate the local economy for possibly a decade, they argued, since out-of-state buyers would scoop up deals on the cheap and turn them into rentals, attracting blight, crime and causing regional real-estate values to plummet even more.

David Barr, FDIC spokesman, said the federal corporation will complete its sell-off of bank-owned homes it took over from Pasadena-based IndyMac Federal Bank — formerly IndyMac Bank — by the end of this year. Some of those homes are in San Bernardino and Riverside counties.

"If they don't sell for a certain price, we won't sell them," Barr said.

Dozens of big-name banks, community banks and nationwide lenders are feeling the nasty sting of Inland Empire

homeowners who have gone into foreclosure or walked away from their homes because they can't afford the mortgage.

The San Bernardino County Board of Supervisors said this week in a news release that 240,000 homes in the two-county region will probably go into foreclosure over the next two years.

That doesn't include 42,000 properties currently in foreclosure or headed in that direction, and tens of thousands more already repossessed by lenders since early 2007.

The Board of Supervisors, a big player in the recovery corporation's formation, wants to prevent future bank-owned properties from ending up in the hands of outside investors.

Thousands of foreclosed homes in the county are "being snapped up for prices below their real value," the news release says.

"Real value" is subjective," said Kevin Wolf, president of Riverside-based Germania Corp., a real-estate consulting company that might become part of the recovery corporation. "It means different things to different people."

For thousands of would-be homeowners in Southern California, falling home prices have yet to hit their real value. If the recovery corporation gains speed, it might create a price-floor and price certain first-time shoppers out of the market.

But like other proponents standing behind the recovery corporation, Wolf believes many Inland Empire neighborhood values are deflated.

Montclair Councilman Bill Ruh is skeptical about the proposed public-private partnership.

"When home prices were rising at an astonishing pace, they didn't attempt to put a ceiling on the price of a home," Ruh said. "So why create a price floor? The Inland Empire is in a bubble."

He added: "Some area leaders



can't stand to think of a bank teller living in Dos Lagos, Coyote Canyon or Sierra Lakes. I have news for them: The folks employed by the (Citizens Business Bank) arena need to live somewhere. The people employed by the (Auto Club) speedway need to live somewhere. They need to remember that for every CEO living here, there are lots of workers who need a place to live."

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