File Code No. 120.03

CITY OF SANTA BARBARA

FINANCE COMMITTEE AGENDA REPORT

AGENDA DATE: January 8, 2013

TO: Finance Committee

FROM: Administration, Housing and Human Services Division, Community Development Department

SUBJECT: Loan Modification Request On Property Located At 4006, 4007 And 4021 Via Lucero Street (“El Patio”)

RECOMMENDATION:

That the Finance Committee recommend that Council approve a modification to the terms of City financing on the El Patio affordable housing project.

DISCUSSION:

Background:

In 1994, Redevelopment Agency (RDA) housing set-aside funds and the City’s Socioeconomic Mitigation Program (SEMP) funds provided a development loan (“City Loan”) to El Patio Community Housing Partners (“Owner”) to build an affordable complex consisting of 113 low-income units with 48 units designated for senior housing and the remaining 65 units designated for low-income family units. The original loan amount was $3,350,000 with a simple interest rate of 4.5%. Repayment of the City Loan was based on the “residual receipts” calculation method. The City Loan, and the City’s Affordable Covenant (“Covenant”) recorded concurrently, each had 30-year terms.

In 1996, in conjunction with additional financing, a Tax Credit Regulatory Agreement (TCRA) was recorded. At that time, the City Loan was subordinated to the land acquisition loan ($2,075,000), the construction loan ($3,500,000), and a long-term loan in the amount of $795,000. The City’s Covenant and the TCRA both stipulate that the 113 units be maintained as affordable rental dwelling units for low-income households; however, while the TCRA has a 55-year affordability term, expiring in 2051, the City’s Covenant is scheduled to expire in 2024.

Modification Terms:

The Owner has requested a modification of the terms of the City Loan such that the fully amortized loan payments will be due monthly over 37.5 years at a 3% interest rate. A new Affordable Covenant (“New Covenant”) will be recorded concurrently with the modified City Loan agreement and Deed of Trust. This New Covenant will extend the term to align with the expiration date of the TCRA. The modified City Loan will be due on July 1, 2050, and the New Covenant will expire six months later on January 1, 2051, to ensure full compliance and final pay-off prior to release.

Loan Security

The City’s risk position in the loan has improved over time. The City Loan, as modified, will now be subject and subordinate to only one existing loan which has a current balance of approximately $605,000 in favor of the California Community Reinvestment Corporation (“CCRC”). This loan provides for fully amortized payments with a 3.9% interest rate, and is due to be paid in full on or before 2026.

The modified City Loan will remain in second lien position with an estimated loan-to-value (“LTV”) of 33% based on a very conservative property valuation of $15 million. The City Loan plus the CCRC loan result in a combined LTV of 37%. Originally, the City Loan was subordinated to $6,370,000. With this modification, it is subordinate to only $605,000.

Title reports covering the property reveal that there are no defects to title. At the close of this transaction, First American Title Company will issue its lender’s policy insuring the City with a liability in the amount of the modified City Loan (approximately $5 million).

Loan Repayment

The modified City Loan will be fully amortized with a 3% interest rate over a 37.5year term. The estimated monthly payment is $18,500. This guaranteed payment and the CCRC payments will further improve the City’s security as both loan balances are reduced over time.

Long-term Affordability

The New Covenant will provide the City continued assurance that all of the 113 rental units remain affordable for low-income senior and family households during the term of the City Loan. The El Patio project is extremely well maintained and has always been in full compliance with the City’s affordability and reporting requirements. The New Covenant will expire on January 1, 2051, six months after the City Loan is due, to ensure full compliance and final loan pay-off prior to release.

Benefits

This loan modification benefits both the Owner and the City. The Owner benefits by being able to anticipate predictable project cash flow to facilitate the provision of quality affordable housing to current and future residents for the next several decades.

The City benefits by providing no additional funding, extending the Covenant 27 years, and increasing the City Loan security. In addition, due to the demise of the RDA and its funding, these guaranteed payments will support the necessary monitoring and enforcement of the City's affordable housing program.

BUDGET/FINANCIAL INFORMATION:

The City will incur no costs in connection with this request.

The current principal balance of the RDA/SEMP loan is approximately $5 million. As currently structured, the City earns no interest income on the $1.5 million interest balance. By converting this loan from 4.5% simple interest to 3% compounded interest, the effective interest rate is approximately the same, the City receives fixed monthly payments of principal and interest, and the loan balance decreases over time. Staff requests that Finance Committee recommend that Council approve the requested Loan Modification for the El Patio Project.

PREPARED BY: Sue Gray, Community Development Business Manager/DR/DR

SUBMITTED BY: Paul Casey, Assistant City Administrator

APPROVED BY: City Administrator's Office