



CITY OF SANTA BARBARA

COUNCIL AGENDA REPORT

AGENDA DATE: January 15, 2013

TO: Mayor and Councilmembers

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")

RECOMMENDATIONS: That Council:

- A. Approve a Restatement of the 1994 Loan Agreement Funded with Redevelopment Agency Housing Set-aside and Socioeconomic Mitigation Program (SEMP) Funds;
- B. Approve a Restatement of the Deed of Trust to secure the Restated Loan;
- C. Approve a New Affordable Housing Covenant with an Extended Term of an Additional 27 Years; and
- D. Authorize the Community Development Director to Execute Such Agreements and Related Documents, Subject to Approval as to Form by the City Attorney, as Necessary.

DISCUSSION:

Background:

In 1994, the Redevelopment Agency (RDA) using housing set-aside funds and the City using Socioeconomic Mitigation Program (SEMP) funds provided El Patio Community Housing Partners ("Borrower") a development loan for the construction of 113 rental housing units ("City Loan") in the original amount of \$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") have concurrent 30-year terms.

In 1996, additional financing was secured and the City Loan was made subordinate to a land acquisition loan (\$2,075,000), a construction loan (\$3,500,000) and a long-term

loan in the amount of \$795,000. At that time, a Tax Credit Regulatory Agreement (TCRA) was also recorded.

Both the City's Covenant and the TCRA required that the 113 rental units be maintained as affordable rental dwelling units for low-income households. The TCRA regulatory agreement, however, had a 55-year affordability term, expiring in 2051, and the City's Affordable Covenant had a 30-year term expiring in 2024.

The City Loan contains typical "residual receipt" loan repayments terms. Repayment is determined annually based upon the project's previous twelve-month financial statements. Monthly payments to the City are determined based upon the amount of positive cash flow experienced by the project in the prior twelve-month period (if there is no positive cash flow then no payments are made). Since calendar year 1998, payments to the City from the Borrower have averaged approximately \$10,000/month. These payments have not been sufficient to pay the interest accruing at 4.5% and, therefore, the principal balance due has been increasing. The current principal balance of the City Loan is approximately \$5 million. Under the existing Loan terms, the principal balance will continue to increase and in 2024, the principal balance plus all accrued interest will be due and payable in full.

Current Modification Request:

The Borrower has requested to change the terms of the City Loan to a fully amortized loan structure with fixed payments made monthly over 37.5 years at a lower interest rate of 3%. The estimated monthly payment would be \$18,500. The loan would be paid in full on July 1, 2050.

The current principal balance of the City Loan is approximately \$5 million (\$3,350,000 plus accrued interest of \$1,650,000). The City will earn additional interest income of approximately \$1.6 million over the remaining life of the existing City Loan. By converting the existing loan from 4.5% simple interest to the requested 3% amortized interest and extending the term, the total interest income of the City loan would be \$4,950,000 (\$1,650,000 plus \$3,250,000). If modified, however, the City will receive increased fixed monthly payments.

Loan Security

The original City Loan is secured by a deed of trust, which is subordinate only to a loan in the amount of \$605,000 held by the California Community Reinvestment Corporation ("CCRC"). The CCRC loan is fully amortized with a 3.9% interest rate that will be paid in full by 2026. The City's risk position has improved over time. Originally, the City Loan was subordinate to \$6,370,000 in debt.

The modified City Loan will remain in second position with an estimated loan-to-value ("LTV") of 33% based on a very conservative property valuation of \$15 million. The City Loan, together with the CCRC loan, result in a combined LTV of 37%. Also, as both the City Loan and the CCRC loan are paid down, the City's security will increase.

Title reports covering the property show no defects to title. At the close of this transaction, First American Title Company will issue its lender's policy insuring the City against a defect in the amount of the modified City Loan (approximately \$5 million).

Long-term Affordability

Along with the modified City Loan, the Borrower has agreed to record a new City Affordable Covenant ("New Covenant") with a term, concurrent with the City Loan, of 38 years to expire on January 1, 2051. The New Covenant will provide the City additional 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.

BUDGET/FINANCIAL INFORMATION:

If the Council declines to approve the loan modification as requested, the borrower will seek new financing from a private lender and will pay-off the outstanding balance of the City Loan totaling approximately \$5 million. If, alternatively, the Council approves the loan modification as requested, the City will receive fixed monthly payments secured by a deed of trust on the property in the approximate amount of \$18,000. The City will earn additional interest income in the amount of \$1,700,000 (\$4,950,000 minus \$3,250,000). Additionally, the City will have the opportunity to extend the Affordable Covenant 27 additional years.

Staff is recommending the loan modification option because it provides increased fixed monthly payments to the City over the term of the Loan and an extended Affordable Covenant. With the end of the Redevelopment Agency, it is important that long term, stable, funding sources that generate funds to pay for on-going monitoring and enforcement of the City's affordable housing program, be maintained.

Finance Committee Recommendation:

On January 8, 2013, Council's Finance Committee reviewed and approved the recommendations of this report and forwarded them to the full Council with a recommendation for approval.

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

SUBMITTED BY: Paul Casey, Assistant City Administrator

APPROVED BY: City Administrator's Office



EL PATIO LOAN MODIFICATION

January 15, 2013

EL PATIO



EL PATIO





1994 RDA/SEMP LOAN

- \$3,350,000
- 4.5% Simple Interest
- Residual Receipts/Deferred Payment
- City Covenant & Loan
 - Expiration 2024
 - Balloon Payment



1996 Subordination

➤ Additional Project Financing:

1. \$2,075,000
2. \$3,500,000
3. \$795,000
4. City Loan

➤ Tax Credit Affordability

Expiration 2051

Current Loan

Total P & I Balance	\$5,000,000
Interest Rate	4.5% Simple
Type	Residual Receipts
Payment	If Positive Cash Flow
Expiration	2024



Current Loan

- City's Risk Position Improved
- Subordinate Only to CCRC
(\$605,000 vs. \$6,370,000)
- \$3,250,000 Interest Income
(over 30 years)
- Balloon Payment due 2024



Loan Modification Request

➤ **Loan**

- 3% interest rate compounded
- Fully Amortized
- \$18,500 est. monthly payment
- Expiration 2050
- No balloon payment

➤ **Covenant**

- Expiration 2051



Owner Benefits

- Predictable Payments
- Provide Quality Affordable Housing for Decades
- Loan Term Extended – No Balloon Pmt
- Lower Interest Rate



City Benefits

- No Cost to City
- Loan Security
- City Assurance of Affordability
- Additional Interest Income
- Maintain Essential Housing Program Functions

Options

	OPTION 1 REFI / PAYOFF	OPTION 2 MODIFICATION
Total P & I Balance	\$5,000,000	\$5,000,000
Interest Rate	N/A	3% Compound
Type	N/A	Amortized
Payment	Lump Sum	\$18,500 / month
Expiration	2013	2050
Life of Loan Interest Income	\$1,650,000	\$4,950,000
Balloon Payment	Yes	No



Recommendations

- A. Approve a Restatement of the 1994 Loan Agreement;
- B. Approve a Restatement of the Deed of Trust to secure the Restated Loan;
- C. Approve a New Affordable Housing Covenant with an Extended Term; and
- D. Authorize Execution of Agreements.

EL PATIO

