



HOUSING

AUTHORITY OF THE  
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February 18, 2013

*Hand Delivered*

Sue Gray, Administrative Services Manager  
Community Development Department  
City of Santa Barbara  
630 Garden Street  
Santa Barbara, CA 93101

**RE: REQUEST FOR:**

1. **SUBORDINATION AND AMENDMENT OF TERM FOR EXISTING RESIDUAL RECEIPTS LOAN ON 521 N. LA CUMBRE ROAD; AND**
2. **RECONVAYANCE OF DEEDS OF TRUST SECURING PERFORMANCE OF GRANT FUNDS ON 418 SANTA FE PLACE (SHIFCO) AND 521 N. LA CUMBRE ROAD (VILLA LA CUMBRE)**

Dear Ms. Gray,

As you are aware, the Housing Authority has been working diligently to recapitalize two of its low rent senior housing developments—SHIFCO , located at 418 Santa Fe Place, comprised of 107 units; and Villa La Cumbre, located at 521 N. La Cumbre Road, consisting of 60 units. The financing plan includes utilizing 4% Low-Income Housing Tax Credits, tax-exempt bonds and a new low-interest, fixed rate HUD-insured mortgage with a 35 year term that will take out the bonds 18 months following their issuance. The reservation of tax credits has been secured for this project from California Tax Credit Allocation Committee and a forward commitment for the bond allocation has been received from California Debt Limit Allocation Committee—both of which were subsequent to the City Council's June 12, 2012 TEFRA hearing approving our issuance of the bonds. We expect to receive a firm commitment of the FHA/HUD-insured mortgage from the Department of Housing and Urban Development within the next month whereupon all of the financing will be ready for closing.

In order to move this important recapitalization effort forward, we need specific approvals from the City. First, we would like to receive approval and agreement to have the City's existing residual receipts loan on the Villa La Cumbre property subordinated to the new HUD-insured mortgage and Housing Authority loans and to amend the maturity date of the loan to coincide with the maturity date of the new HUD-insured mortgage. Secondly, there are several deeds of trust recorded by the City encumbering both SHIFCO and Villa La Cumbre as security for performance of past grant funds given to the Housing Authority for capital improvements. As full performance on these past grants has been

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achieved, we would like to have these deeds re-conveyed. Included is a project summary to more fully inform you and your team of the recapitalization plan details (see attached **Exhibit A**).

### **Subordination and amending of maturity date of existing Residual Receipts loan on 521 N. La Cumbre Road**

Villa La Cumbre has an existing City of Santa Barbara (Housing Successor Agency to the former Redevelopment Agency) residual receipts loan with an outstanding balance of \$1,167,224.61 (principal plus accrued interest through January 31, 2013) with a maturity date of June 1, 2030. From the inception of this recapitalization need and effort, the Housing Authority has contemplated leaving this loan in place and having the City subordinate the loan to the new HUD-insured mortgage. The Housing Authority sought formal approval for the subordination in August, 2012 (see attached **Exhibit B**), and received approval from the City's loan Committee. After recent discussions with our legal counsel and the City Attorney's Office, it has been determined that HUD will not only require subordination of the City's loan to their insured loan but may also require a modification of the maturity date to coincide with the maturity date of their loan. Should this modification be required, the loan would need to be extended an additional 18 years, to April 2048. We recognize this type of modification would require City Council approval. Thus, we are seeking written affirmation of the City Council's approval of the subordination request and a firm indication of City staff's support (to be followed by City Council approval) of this request to modify and extend the maturity date of the loan to coincide with the maturity date of the HUD insured loan, if so required.

As was detailed in our original subordination request in August of 2012 (**Exhibit B**), the residual receipts loan is an obligation of the Housing Authority and although use of the properties require conveyance to a limited partnership via a financing lease to effectuate the recapitalization, the Authority will ensure minimum payment of \$60,000 per year on the loan via a separate agreement between the Authority and the City. This is the same amount that Housing Authority has paid in its most recent program year and is an amount that fully amortizes the loan over the existing loan term. In other words, at the \$60,000 agreed upon minimum annual payment the loan will be paid in full in 2042, which would be in advance of the requested extended term of 2048. In the event that the Department of Housing and Urban Development (HUD) does not approve the proposed payment arrangement, the Housing Authority will pay the residual receipts loan on or before the close of the recapitalization transaction.

### **Requests for Reconveyance of Deeds of Trusts for Grant Agreements encumbering both SHIFCO and Villa La Cumbre**

Over the last several years, the City of Santa Barbara has granted funds to the Housing Authority for the purpose of capital improvements to both properties. The most recent grants were for re-roofing projects at both properties. To secure performance of these grants, the City had Deeds of Trusts recorded encumbering both properties. Since these funds have been expended per the grant agreements, the Housing Authority would like to clean up title to both properties by having the Deeds of Trusts reconveyed. The Housing Authority will ensure that all new use agreements and affordability

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covenants that result from this recapitalization effort meet or exceed the City covenants put into place with the aforementioned grant agreements.

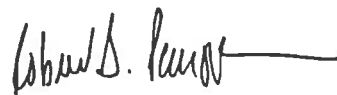
Approving the subordination and loan modification (should the latter be required by HUD) on the 521 N. La Cumbre residual receipts loan and reconveying the deeds of trust on the grant agreements as outlined above, will assist the Housing Authority in effectuating this very needed recapitalization effort. While this is a very complicated financing structure, it is essentially a refinance in conjunction with the injection of new tax credit capital to rehabilitate the two properties. At completion, all 167 units that make-up the two properties will be brought to “like new” condition such that they can effectively serve current and future low-income Santa Barbara seniors for another 40 years. The refinancing will also enable the Housing Authority to draw on equity to help address the rehabilitation needs of other properties in its current inventory. Allowing the City’s loan to remain on the project and not require repayment at closing as vetted with City staff in the past will enable the Housing Authority to also utilize equity funding to better address the community’s identified affordable housing needs. This is all the more important now that affordable housing funding via redevelopment agencies no longer exists in California.

We appreciate the work the City has put into the review of this project to date. Please review and forward this request to the City Council for their consideration as soon as is feasible as we are attempting to finalize the agreements and close on all financing between March 20<sup>th</sup> and March 31<sup>st</sup>.

If you should require any additional information, please feel free to contact me at 805-897-1025 or via email at [rpearson@hacsb.org](mailto:rpearson@hacsb.org) or Rob Fredericks at 897-1051 or email at [rfredericks@hacsb.org](mailto:rfredericks@hacsb.org).

Sincerely,

HOUSING AUTHORITY OF THE  
CITY OF SANTA BARBARA



ROBERT G. PEARSON  
Executive Director/CEO

cc: Rob Fredericks, Deputy Executive Director/CAO  
Bob Peirson, Director of Finance