



BOARD OF SUPERVISORS
AGENDA LETTER

Agenda Number:

Clerk of the Board of Supervisors
105 E. Anapamu Street, Suite 407
Santa Barbara, CA 93101
(805) 568-2240

Department Name: Community Services
Department No.: 055
For Agenda Of: June 18, 2019
Placement: Administrative
Estimated Time: N/A
Continued Item: No
If Yes, date from:
Vote Required: Majority

TO: Board of Supervisors

FROM: Department George Chapjian, Community Services Director (805) 568-2467
Director(s)
Contact Info: Dinah Lockhart, Deputy Director 568-3523
Laurie Baker, Grants and Program Manager 568-3521

SUBJECT: Subordination of County Loan and Regulatory Agreement on Vintage Walk Apartments in Buellton (Supervisorial District 3)

County Counsel Concurrence

As to form: Yes

Other Concurrence: Risk Management

As to form: Yes

Auditor-Controller Concurrence

As to form: Yes

Recommended Actions:

- A. Approve and authorize the Chair of the Board of County Supervisors to execute the Subordination Agreement (Attachment A) and Addendum to Subordination Agreement (Attachment B) (together hereinafter, the "Subordination Agreement"), which will subordinate the County's Loan and Regulatory Agreement to a new senior loan in the approximate amount of Three Hundred and Fifty Five Thousand Dollar (\$355,000); and
- B. Determine that the Recommended Actions are not a project under the California Environmental Quality Act (CEQA) pursuant to CEQA Guideline section 15378(b)(4), finding that the activities are the creation of government funding mechanisms or other government fiscal activities which do not involve any commitment to any specific project which may result in a potentially significant physical impact on the environment.

Subordination of County Loan and Regulatory Agreements on Vintage Walk Apartments

June 18, 2019

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Summary Text:

To satisfy a condition of refinancing their existing loan, the Housing Authority of Santa Barbara County (“Housing Authority”), is requesting that the County subordinate its Loan and Regulatory Agreement to a new senior loan on Vintage Walk Apartments located at 595 Avenue of the Flags, Buellton, California (“Property”). This refinancing will afford Surf Development, an affiliate entity of the Housing Authority, a lower interest rate. The Property includes six (6) units of affordable rental housing managed by the Housing Authority of Santa Barbara County (“Housing Authority”) and 1,349 sq. ft. of commercial space. The new approximately Three Hundred and Fifty Five Thousand Dollar (\$355,000) loan is being provided by Five Star Bank.

Background:

In 2007, the County provided a \$180,000 loan, utilizing Santa Ynez Valley Housing Market Area Local Affordable Housing Funds, to Surf Development Company for the acquisition and development of Vintage Walk Apartments, a mixed-use development including six (6) rental one-bedroom affordable housing units. The 2007 loan documents included a Loan Agreement, Deed of Trust, Promissory Note, and Regulatory Agreement. The terms of the Loan Agreement call for repayment over 30-years with 3% annual interest on the outstanding balance. Payments under the Loan Agreement are current. As of May 7, 2019, the County has received approximately \$108,000 thereunder, \$57,000 of which comprises interest and \$51,000 of which has reduced the outstanding loan principal to \$129,000.

In the 2007 Loan Agreement, the County agreed to subordinate its Deed of Trust to Community West Bank’s approximately \$562,500 loan. Therefore, the lien priority of the County’s Deed of Trust will remain the same where Five Star Bank’s approximately \$355,000 loan will be replacing the 2007 Community West Bank \$562,500 loan.

The proposed Subordination Agreement will also place the County’s Regulatory Agreement in second priority to the new loan. The Regulatory Agreement recorded against the Property, dated October 31, 2007, restricts the incomes and rents for the six (6) affordable units for a period of 30-years which will end in 2037. Tenants are limited to Very Low Income Households. Rents for these units are restricted for Households with incomes at or below 50% AMI, adjusted for Household Size.

Performance Measure:

The Regulatory Agreement, restricting tenant income and rents charged at the Property, will remain in effect until the year 2037. County HCD staff will continue to monitor the Property as required for the duration of the regulatory term.

Fiscal and Facilities Impacts:

Budgeted: Yes

Fiscal Analysis:

Not applicable.

Key Contract Risks:

Execution of the Subordination Agreement will result in the County's rights under the Regulatory Agreement becoming subordinate to the lien of Five Star Bank's deed of trust. This new loan may result in the County's Deed of Trust being subordinated for a longer period of time than when it was initially executed. The Subordination Agreement will not change the priority of the County's Deed of Trust, which was already in second position to the senior loan which Five Star Bank is now replacing.

In the event of foreclosure by the senior lender and sale of the Property, the senior loan will be repaid prior to the County's loan. If there are sufficient funds after payment of senior liens, then the County's loan will be repaid. The Subordination Agreement provides that the County's Regulatory Agreement would also be extinguished in a foreclosure. Five Star Bank is requiring subordination as a condition to providing their loan. Five Star Bank has fully vetted and underwritten the financing for the Property and determined that the new loan will not hinder the ability of the Property to generate sufficient revenue to operate successfully.

HCD has evaluated the risks associated with the Subordination Agreement and determined that such risks are within industry standards and that there are safeguards in place to prevent or mitigate risks. The decreased principal and interest rate of the new loan will lower annual payments to the senior lender, ensuring the continued operating success of the Property and payments on the County loan. HCD annually monitors both the financial capacity of the Project and owner, and County regulatory restrictions on occupancy by low-income households.

Staffing Impacts:

County Housing and Community Development (HCD) staff will continue to monitor Vintage Walk Apartments for occupancy and rent requirements, and County loan repayment for the duration of the regulatory period.

Special Instructions:

- 1) Please return one set of the executed original Subordination Agreement (Attachment A), Addendum to Subordination Agreement (Attachment B), and a copy of the Minute Order to Ted Teyber. Please email or call when ready for pick up: teyber@co.santa-barbara.ca.us Ext. 3513.
- 2) Please retain one set of the executed original documents for COB records.

Attachments:

Attachment A: Subordination Agreement

Attachment B: Addendum to Subordination Agreement