



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  
**Department No.:** 057  
**For Agenda Of:** 3/1/16  
**Placement:** Administrative  
**Estimated Time:**  
**Continued Item:** No  
**If Yes, date from:**  
**Vote Required:** Majority

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**TO:** Board of Supervisors  
**FROM:** Department George Chapjian, Community Services Director (805) 568-2467  
Director(s)  
Contact Info: Dinah Lockhart, Deputy Director (805) 568-3523  
Laurie Baker, Grants and Programs Manager, (805) 568-3521  
**SUBJECT:** Mariposa Townhomes - Subordination of County Loan and replacement of limited partner (Supervisorial District 4)

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**County Counsel Concurrence**

As to form: Yes

**Auditor-Controller Concurrence**

As to form: Yes

**Risk Management**

As to form: Yes

**Recommended Actions:**

That the Board of Supervisors:

- a. Approve the replacement of the Federal National Mortgage Association (Fannie Mae) with Peoples' Self-Help Housing Corporation (PSHHC) as the limited partner of Mariposa Reale Limited Partnership (LP), a California limited partnership, which is subject to an outstanding County Loan, regulatory agreement and related documents;
- b. Authorize and direct the Community Services Department (CSD) Director to provide written confirmation of the Board's approval to replace the limited partner with PSHHC (Attachment C);
- c. Approve the following, subject to the condition that the LP makes a \$40,000 partial pre-payment of the County Loan at the closing of the refinance transaction and that the new loan conform to the material terms set forth in the attached loan sheet (Attachment D):
  - i. Approve a waiver of acceleration of repayment of the County Loan upon refinancing of the Senior Permanent Loan (Senior Loan) ; and
  - ii. Approve the subordination of the County Loan to a new Senior Loan.
- d. Authorize and direct the Community Services Department (CSD) Director to provide written confirmation that the County waives the accelerated repayment of the County Loan and agrees to

subordinate the County Loan to a new Senior Loan as set forth in Recommended Action C above (Attachment C);

- e. Approve and direct the Chair of the Board of County Supervisors to execute the subordination agreement (Attachment A);
- f. 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 (Attachment B).

**Summary Text:**

In 1998, the County provided \$1,091,216 in federal HOME Investment Partnerships (HOME) Program funds and local In-Lieu funds (County Loan) to Mariposa Reale Limited Partnership (LP), a California limited partnership, toward the development costs of Mariposa Townhomes (Project), an 80 unit affordable housing development in Orcutt. The County Loan is subordinate to an existing permanent senior loan (Senior Loan), in the original amount of \$2,429,800. The LP proposes to refinance the Senior Loan in order to benefit from a lower interest rate and to borrow additional funds to make capital improvements to the Property. Such a refinance will trigger an acceleration provision in the County's loan documents that will require the LP to repay the full outstanding balance of the County Loan. The refinance transaction would also result in the County's loan taking a senior lien position to the refinanced Senior Loan. The Board is being asked to waive this acceleration provision and subordinate the County Loan to the refinanced Senior Loan in exchange for a partial prepayment of the County's Loan in the amount of \$40,000. The Board's approval will also be contingent upon the refinanced Senior Loan having a Principal Amount no greater than \$2,496,000 with a term of 15 years, amortization of 30 years, and an interest rate estimated to be 5.30% but no higher than 6.00%.

The Board is also being asked to approve a request from the LP to replace its current limited partner, Fannie Mae, with People's Self-Help Housing Corporation (PSSHC). Fannie Mae wishes to exit the partnership because the 15-year tax credit compliance period has ended. If the recommended actions are approved, the CSD Director will provide written confirmation of the Board's actions (Attachment C).

**Background:**

In 1998, People's Self-Help Housing Corporation (PSHHC) received \$900,000 in HOME funds and \$191,216 in County In-lieu funds, for a total of \$1,091,216 (County Loan) to develop Mariposa Townhomes (Project), an 80-unit family-housing development located at 290 Parkview South in the unincorporated community of Orcutt. Eleven (11) of the units are designated as HOME-restricted units and another twenty (20) of the units are restricted as In-lieu units for households with incomes at or below 50-percent (50%) of the Area Median Income.

PSHHC has requested that the County approve a change to the limited partnership (LP) of the Project, as the 15-year federal tax-credit compliance period has ended and the current limited partner, the Federal National Mortgage Association ("Fannie Mae") will exit the partnership. PSHHC will replace Fannie Mae as the Project's LP.

In addition, PSHHC proposes to refinance the Project's existing senior loan (Senior Loan) and increase the principal balance to provide approximately \$500,000 to fund capital improvements at the Project and

to provide a \$40,000 prepayment on the County’s loan, as discussed further below. The existing Senior Loan has an 8.33% interest rate. The new senior loan will provide a more favorable interest rate (estimated 5.30%), which will decrease the annual debt service by approximately \$13,000. As the property is more than 15 years old, rehabilitation is necessary to upgrade the property and the housing units, to improve access for persons with disabilities, and to increase energy- and water-efficiency. The rehabilitation will extend the useful life of the property, thereby preserving affordable housing units in the community.

The terms of the County Loan requires repayment of the County Loan if the Project is sold or the Senior Loan is refinanced. However, the County has the option to waive this accelerated repayment requirement and allow PSHHC to refinance the Senior Loan. If the Senior Loan is refinance, the new loan will occupy a junior lien position to the County loan, although the County may agree to subordinate its loan to this refinanced Senior Loan.

PSHHC’s requests for waiver of acceleration of repayment of the County Loan, replacement of the limited partner, and the re-subordination of the County loan to a new senior loan were reviewed by a committee of County staff, which included representatives from HCD program staff, CSD fiscal staff, CSD Director and Deputy Director (HCD), the Auditor’s office and others. The Committee recommended that the County approve PSHHC’s requests on the condition that PSHHC make a partial prepayment on the County loan. PSHHC proposed a prepayment on the County loan in the amount of \$40,000. County staff determined that \$40,000 was an acceptable amount, supported by financial documents. PSHHC will increase the amount of the refinance Senior Loan by \$50,000 in order to make the prepayment on the County loan and to cover a portion of the senior lender underwriting fees. The \$40,000 will be paid to the County at the closing of the refinance transaction. In accordance with the existing terms of the County Loan, annual payments will be made to the County from residual receipts from the Property.

A comparison of the current and proposed new senior loan is shown below:

	Current	Proposed
Orig. Principle Amount	\$2,429,800	\$2,496,000
Outstanding Principal Balance	\$1,891,912	
County Loan Prepayment		\$40,000
Lender	CCRC	GreyStone
Term	15 years	15 years
Amortization	40 Years	30 years
Interest	8.33%	5.30%*
Annual Payment	\$178,619	165,396
Annual Savings		13,223

\*The proposed interest rate is an estimate and will be determined when the Senior Lender locks the rate. The execution of the subordination agreement is a condition to go to rate lock. It is not anticipated that the rate will be higher than 6%.

**Performance Measures**

HCD fiscal staff reviews the Project’s financial statements annually to assure that any residual receipts are used to repay the County Loan. In addition, HCD reviews the financial statements of the Project’s owner (PSHHC) to assure continued financial capacity.

HCD housing staff monitors the Project to assure compliance with federal and County requirements on tenant income and rent restrictions in accordance with the County’s Regulatory Agreement. The Project will be monitored at least every three years, or more often as needed.

**Fiscal and Facilities Impacts:**

The \$40,000 County loan-prepayment will be recycled into the County Affordable Housing Program. Ten-percent of the funds may be used for HCD administration costs. The County has budgeted for HCD staff time to monitor the Project and all housing projects in the County’s housing and loan portfolio.

**Fiscal Analysis:**

<b><u>Funding Sources</u></b>	<b><u>Current FY Cost:</u></b>	<b><u>Annualized On-going Cost:</u></b>	<b><u>Total One-Time Project Cost</u></b>
General Fund			
State			
Federal			
Fees			
Other:			
Total	\$ -	\$ -	\$ -

Narrative: No new funds will be provided to the Project

**Key Contract Risks:**

The loan documents (County loan agreement, promissory note, Deed of Trust and Regulatory Agreement) will remain in full force until 2038. Execution of the subordination agreement will result in the County’s rights under the County Loan to become subordinate to the lien of the new Permanent lender’s deed of trust.

The terms of the County Loan require repayment from residual receipts, which are calculated from revenue remaining after payment of operating expenses, debt service and other fees. The new Permanent Loan will be provided at a more favorable interest rate than the current Permanent Loan and, although the principal balance will be increased, the annual debt service will decrease. This should have a positive effect on the residual receipts available for annual payments on the County Loan.

The County will review the Project’s financial statements annually to assure that any residual receipts are used to repay the County Loan. The Project’s projected operating proforma indicates that the County will receive payments, which staff estimates will be approximately \$13,000 or more annually, depending on operating expenses and property vacancy rate. The County loan is secured by the Project via recorded Deed of Trust.

In the event of foreclosure and sale of the property, the Permanent Loan will be repaid prior to the County Loan. The County Loan will be repaid subject to funds available after payment of the Permanent Loan. The County’s regulatory agreement could be extinguished in a foreclosure.

HCD has evaluated the risks associated with the Project and determined that such risks are within industry standards and that there are safeguards in place to prevent or mitigate risks. HCD annually

monitors both the financial capacity of the Project and owner, and County regulatory restrictions on occupancy by low-income households.

In addition the new Permanent Lender, Greystone Servicing Corporation, Inc. has fully vetted and underwritten the Project and has determined that the new Permanent Loan will not hinder the ability of the Project to generate sufficient revenue to operate successfully.

**Staffing Impacts:**

Current HCD staff will monitor the Project for the duration of the County Loan, and County and HOME affordability periods. It is estimated that \$2,500 will be incurred annually by CSD to monitor the Project.

**Special Instructions:**

Please return to HCD:

1. Original Subordination Agreement, signed by the Board Chair to be recorded in the County real estate records; and
2. A copy of the Minute Order

Please call Laurie Baker at ext. 3521 when the signed Subordination Agreement is ready for pick up. The Minute Order may be provided when available by email to [LBaker@co.santa-barbara.ca.us](mailto:LBaker@co.santa-barbara.ca.us).

**Attachments:**

- Attachment A: Subordination Agreement of the County Loan
- Attachment B: CEQA NOE
- Attachment C: County Approval Letter
- Attachment D: Senior Loan Sheet