BOARD OF SUPERVISORS
AGENDA LETTER

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

Agenda Number:

Department Name:	Community Services
Department No.:	057
For Agenda Of:	March 11, 2014
Placement:	Administrative
Estimated Time:	N/A
Continued Item:	No
If Yes, date from:	
Vote Required:	Majority

TO:	Board of Supervisors	
FROM:	Department Director:	Herman D. Parker, Community Services Director (805) 568-2467
	Contact Info:	Laurie Baker, Grants and Program Manager (805) 568-3521
SUBJECT:	**Santa Rita Village – Subordination of County Loan to Permanent Lender; Fourth Supervisorial District.**	

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 and Authorize the Chair of the Board of Supervisors to execute originals and duplicate originals of the First Amendment to the County HOME Regulatory Agreement (Attachment A) with Santa Rita Village, L.P. a California limited partnership for the purpose of obtaining permanent financing for the Santa Rita Village Phase I project, located at 815 West Ocean Avenue in the City of Lompoc, County of Santa Barbara, California, in District 4 (the “Project”);

B. Approve and authorize the Chair of the Board to execute the original and duplicate original Subordination Agreement (Attachment B) that subordinates the County HOME Loan Permanent Deed of Trust, Assignment of Rents, and Security Agreement that secures the County HOME Loan Agreement and the County HOME Loan Regulatory Agreement to a deed of trust securing a loan from Community Reinvestment Corporation (CCRC) as originator, with the loan at a later date to be sold to Wells Fargo Bank for loan servicing; and

C. Determine, pursuant to California Environmental Quality Act (CEQA) Guidelines Section 15378(b)(4), that the approval of the Amendment and Subordination Agreement is not the approval of a project that is subject to environmental review under the CEQA after finding that the actions are not a project which may result in a potentially significant physical impact on the environment, and direct staff to file a Notice of Exemption.

Summary Text:

This request is being made by the Housing Authority of the County of Santa Barbara (Housing Authority). The Project is owned by Santa Rita Village, L.P., as a California limited partnership, of which the Housing Authority is the Administrative General Partner. The construction of the Project has been completed and it is fully occupied. The Housing Authority seeks to convert the construction loan that was made to the project – to which the County's HOME loan is currently subordinate – to a lower-rate permanent Federal Housing Administration (FHA)-insured loan. The FHA is administered under the U.S. Department of Housing and Urban Development (HUD). HUD requires that the FHA-insured loan be in first mortgage position.. The recommended action is to authorize the subordination of the County HOME loan and HOME regulatory agreement to the new permanent loan. As a practical matter, this will result in the County's security and regulatory agreement being in a junior lien position relative to the new FHA-insured loan.

Background:

Santa Rita Village, Phase I is a 36 unit multifamily housing development, located at 815 West Ocean Avenue in Lompoc, District 4. The project is financed with low-income housing tax credit equity, RDA and HOME funds, along with Housing Authority funding. The Project was completed in December 2012 and was fully occupied in January 2013. The Project currently has a construction loan that is extended to June 2014. The Housing Authority had originally planned to convert the construction loan to a conventional permanent loan. However, the Housing Authority later learned that the FHA's loan financing was more beneficial to the long term financial stability of the Project. The current lender, California Community Reinvestment Corporation (CCRC), is both a conventional lender for multifamily housing projects as well as a Multifamily Accelerated Processing (MA) lender for FHA-insured multifamily loan projects.

During 2013, CCRC submitted a scoping package to the U.S. Department of Housing and Urban Development (HUD) Los Angeles field office on behalf of Santa Rita Village Phase I. HUD subsequently determined that the Project qualifies for the HUD insured 223(f) loan. The Housing Authority and CCRC have been working to submit a financing package to process the loan.

There are several advantages to electing the FHA-insured loan over the conventional loan. Although the FHA loan is a larger loan amount, it will reduce other costs. First, the FHA interest rate is lower than the conventional loan. Although the FHA loan rates vary, the current FHA rate of approximately 4.25% compares favorably to the 6.25% conventional loan product. Second, under the FHA loan option, there will be almost no deferred developer fee. This means that there will be residual receipts paid to the County HOME loan sooner than originally projected. There will be no change in the current order of priority for payments from residual receipts when the County subordinates its loan to the permanent lender. The County HOME loan is currently subordinate to the existing construction loan, which will be replaced with the proposed permanent FHA loan. Finally, the FHA loan is a 35 year, fully amortized loan as contrasted with the conventional 30-year amortized loan with a balloon payment due in 17 years. The use of the FHA 35 year amortized loan will reduce future loan refinancing transaction costs for the Project. A chart comparing the terms of the loans is provided below:

Loan Terms	Conventional Loan	FHA-Insured Loan
Rate	6.25% Fixed	Rate fixed at an estimated 3.25% - 4.25% based on the most recent rates. The rate will be locked at time of loan commitment.
Term	30 year amortization with balloon payment in year 17	35 years, amortized over the entire term
Loan Amount	$2,340,000	$2,900,000
Financing Costs	$778,308	$642,074
Effects on County's Loan	Requires that $621,868 of the developer fee to be deferred, which will be paid prior to the County receiving payments on its residual receipts loan.	Requires that $66,361of the developer fee be deferred. County loan payments may begin sooner.

In order to close on the new, FHA-insured loan, HUD requires that the County subordinate its loan to the new FHA-insured loan. Further, HUD requires a modification to the County's HOME Regulatory Agreement. County Counsel has reviewed the requested amendments and subordination agreement and has approved the documents as to form. The attached Subordination Agreement makes reference to "Schedule A," which is comprised of the HUD promissory Note, Deed of Trust and a HUD Regulatory Agreement between HUD and the borrower. The First Amendment to the County HOME Regulatory Agreement also makes reference to the HUD Regulatory Agreement. Draft forms of these documents are included in Attachment B. These documents are still being negotiated with the Lender and HUD, and will be finalized once HUD approves the loan.

The Housing Authority submits these documents to the County for approval at this time in order to facilitate it efforts to secure FHA-insured refinancing. HUD has up to 60 days from receipt of the Housing Authority's application to approve the loan and the Subordination Agreement and the First Amendment to the County HOME Regulatory Agreement before the FHA-insured loan can close. The Housing Authority's current loan expires in June 2014. If HUD requires any additional changes to the Subordination Agreement or First Amendment to the County HOME Regulatory Agreement, other than technical revisions, or changes to the documents included in Schedule A of the Subordination Agreement that affect the Subordination Agreement or First Amendment, the changes will be reviewed by HCD and brought to the Board for consideration.

Performance Measure:

The County HOME loan is to be repaid with the Project's residual receipts, after payment of operating expenses, debt service and other expenses. The County will monitor the Project's financial statements annually to determine the amount of available residual receipts that may be applied to the County HOME loan.

The Project has eleven (11) units that are income and rent restricted by the County per the HOME program requirements. The subordination of the County HOME Loan and HOME regulatory agreement will not alter those HOME program requirements. The Project will be monitored periodically by County staff to assure that the units are occupied by eligible tenants.

Fiscal and Facilities Impacts:

None

Fiscal Analysis:

N/A. No new funds are being committed to the Project

Staffing Impacts:

There are no staffing impacts other than for on-going monitoring of the original Project

Special Instructions:
Please have the Board Chair sign the documents and return to HCD for recording.

Attachments:
Attachment A - Amendment to the HOME Loan Regulatory Agreement
Attachment B - Subordination Agreement
Attachment C – CEQA NOE

Authored by:
Laurie Baker, Grants and Program Manager

cc: Dinah Lockhart, Deputy Director, Housing and Community Development