

# ***Lompoc City Council Agenda Item***



**City Council Meeting Date:** February 21, 2006

**TO:** Gary P. Keefe, City Administrator

**FROM:** Dinah Lockhart, Community Development Program Manager  
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**SUBJECT:** Re-subordination of two existing deferred HOME Loans totaling \$80,000 and the repayment of an existing Community Development Block Grant (CDBG) Loan to the Lompoc Housing and Community Development Corporation (LHCDC) on multi-family apartments located at 717-721 North E Street ("Courtyard South").

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## **RECOMMENDATIONS:**

That City Council:

1. Approve the re-subordination of an existing deferred \$50,000 1992 State HOME Program Income loan and an existing deferred \$30,000 HOME Consortium Loan to a new first mortgage obtained by the Lompoc Housing and Community Development Corporation (LHCDC) on multi-family apartments located at 717-721 North E Street;
2. Approve the use of equity being taken out at the close of the refinance escrow for the repayment of the City's CDBG loan (\$29,875) and the balance \$152,694 used for property improvements at various LHCDC properties; and
3. Authorize the City Administrator to sign the subordination agreement and any other documents needed to complete this action.

## **Discussion**

In 1999, Council approved three (3) loans for the acquisition and rehabilitation of six (6) multi-family apartment units at 717-721 North E Street to LHCDC's predecessor organization, the Lompoc Housing Assistance Corporation (LHAC) for a total of \$110,000.

LHCDC is requesting that the City re-subordinate two of the City's loans totaling \$80,000 to a new first mortgage of \$335,000. An existing thirty-year affordability covenant, requiring that the units be rented to very low-income families, will remain in place.

The terms of the City's HOME Consortium loan for \$30,000 and the 1992 State HOME Program Income loan for \$50,000 are for 3% interest, payments deferred for 30 years, with all accrued interest to be forgiven at the expiration of the loan term. The City's CDBG loan of \$30,000 has an interest rate of 5%, fully amortized for 30 years.

In her letter (attached), LHCDC executive director Susan Ehrlich indicates that the refinance of this property will allow LHCDC to repay one of the City's loans, create a long-term capital replacement reserve for other LHCDC rental properties, and make other property improvements at other LHCDC properties on North E Street and at the Marks House Transitional Shelter facility.

Los Padres Bank as part of their re-finance underwriting ordered an appraisal. Capital Realty Analysts performed the appraisal in November 2005. Staff was provided a full copy of the appraisal for review. The appraiser's letter (Attachment #1) summarizes the 'market value' of Courtyard South as \$480,000. Staff believes this is a conservative estimate of the value of the property because according to the appraisal, the cost to rebuild a similar property today would be approximately \$545,000. Additionally, the appraiser noted that rents charged at Courtyard South are approximately 32% lower than similar two and three bedroom market-based units. This is consistent with the property being operated as affordable housing.

After refinancing, total debt on the property will be \$415,000 (which includes the new first mortgage and the City's two deferred loans), which gives the property an 86% loan to value ratio (LTV) based on the 'market value' of the property. Although this is higher than a conventional loan to value (LTV) ratio of 80%, the ratio is high in part because the income potential of the property is reduced due to the operation of the property as affordable housing. As the appraisal also notes, all units are occupied, so even at reduced rents, the property produces sufficient cash flow income to provide a 1.27 debt coverage ratio (DCR). Multi-family industry standards recognize a DCR of 1.15 and above as a healthy debt coverage ratio. Los Padres Bank has approved the refinance and is waiting for City approval before drafting final loan documents. The following is a summary of the sources of funds:

**Original Sources of Funds:**

1 <sup>st</sup> Mortgage (8%, 20 years, refinance in yr. 5)	\$180,000
City 1992 State HOME Program Income (3%, 30 yrs, pymt deferred, Interest forgiven at term)	\$50,000
City HOME Consortium Loan (3%, 30 yrs, pymt deferred, Interest forgiven at term)	\$30,000
City CDBG Rehabilitation Loan (5%, 30 yrs)	<u>\$30,000</u>
Total Mortgage	\$290,000

**Refinance Sources of Funds:**

1 <sup>st</sup> Mortgage (6.5%, 30 yrs)	\$335,000
Less Seller Note Balance	-\$152,697
Less City CDBG Rehab Loan Balance	<u>-\$29,609</u>
Equity Out	\$152,694

A total of \$152,694 in equity will be taken out at close of escrow. These funds will be used in the following manner:

1. Capital replacement reserve for LHCDC rental properties;
2. Landscaping and sprinkler systems at LHCDC properties on North E Street (709-733 N. E St.); and
3. New roof and replace fence at Marks House Transitional Shelter.

LHCDC's 2003 Financial Statements (audit) and 2004 income tax return (Form 990) have been submitted to staff. No adverse issues were noted by the certified public accountant (CPA) who prepared the 2003 statements.

**Summary**

Refinancing accomplishes several purposes. By refinancing the property, LHCDC will pay off the City's CDBG loan. LHCDC will also be taking out \$152,694 in equity which will be used for the improvement of other LHCDC properties.

The City's affordability covenant on the property will remain in place even after the CDBG loan is repaid. The six 2-bedroom units will continue to be rented at \$650 per month. LHCDC has committed to not raising rents at this property this year. LHCDC is currently renting these units at rents affordable to families earning 40% of median income, although federal HOME regulations permit LHCDC to charge higher rents.

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Dinah Lockhart, Community Development Program Manager

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Arleen T. Pelster, AICP, Community Development Director

APPROVED FOR SUBMITTAL TO THE CITY COUNCIL:

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Gary P. Keefe, City Administrator

**Attachments:**

1. Excerpt of Appraisal Performed by Capital Realty Analysts, Inc. in Santa Ynez, California
2. Letter from Sue Ehrlich and refinance pro forma submitted by LHCDC
3. Report on status of CDBG, HOME, and State HOME Loans to LHAC/LHCDC