

Lompoc City Council Agenda Item



City Council Meeting Date: November 1, 2005

TO: Gary P. Keefe, City Administrator

FROM: Dinah Lockhart, Community Development Program Manager
d_lockhart@ci.lompoc.ca.us

SUBJECT: Re-subordination of an existing Community Development Block Grant (CDBG) loan to the Lompoc Housing and Community Development Corporation (LHCDC) on multi-family apartments located at 501-505, 509-513 North "S" Street and 508 North "T" Street.

RECOMMENDATIONS:

That City Council:

1. Approve the re-subordination of an existing \$243,950 CDBG loan to the Lompoc Housing and Community Development Corporation (LHCDC) on multi-family apartments located at 501-505, 509-513 North " S" Street and 508 North "T" Street;
2. Approve the use of \$500,000 in equity being taken out at the close of the refinance escrow for the repayment of the Lompoc Redevelopment Agency California Housing Finance Agency (CHFA) loan, and for other commercial, historic preservation, or affordable housing projects within the City; and
3. Authorize the City Administrator to sign the subordination agreement and any other documents needed to complete this action.

Discussion

In 2001, Council approved a loan to LHCDC's predecessor organization, the Lompoc Housing Assistance Corporation (LHAC) for \$243,950 in CDBG funds and a loan for \$181,050 in Redevelopment Agency CHFA funds for the acquisition of 26 apartment units. The seller carried a 1st trust deed note of

Re-subordination of Existing CDBG Loan

\$998,540. The RDA loan was in second lien position and the CDBG loan in third lien position on the property title. As part of the CHFA loan agreement, an affordability covenant was recorded on the property which preserves the affordable rents of these units for thirty (30) years. The RDA's loan is due for repayment in April 2006. The City's CDBG loan is not due until 2012.

By refinancing the property, the Lompoc Housing and Community Development Corporation (formerly LHAC) will be repaying the City's \$181,050 CHFA loan six (6) months before the note is due. The seller, who will remain as 1st trust deed, will also have a 2nd trust deed note. The City's \$243,950 CDBG loan will remain in third position and the terms of the loan will remain as originally approved. In order for the seller's second note to be recorded, the City's CDBG loan will have to be subordinated to the new second loan. Mid-State Appraisal has updated its appraisal of the property which confirms an appraisal value of approximately \$109,000 per unit, or \$2.8 million for the entire property. This appraisal value is based on fair market value. After refinancing, total debt on the property will be \$1,698,153, which gives the property an acceptable 60% loan to value ratio (LTV). The following is a summary of the sources of funds:

Original Sources of Funds:

1 st Trust Deed (Seller, 8%, 30 years)	\$998,540
2 nd Trust Deed (Seller, 4.8%, 30 years)	\$243,950
City of Lompoc CDBG (3%, due in 10 years, amortized for 40 years)	<u>\$181,050</u>
Total Mortgage	\$1,423,540

Refinance Sources of Funds:

1 st Trust Deed (Seller, 8%, 30 years)	\$954,203
2 nd Trust Deed (Seller, 4.8%, 30 years)	\$500,000
City of Lompoc CDBG (3%, due in 10 years, amortized for 40 years)	<u>\$243,950</u>
Total Mortgage	\$1,698,153

A total of \$500,000 in equity will be taken out at close of escrow. These funds will be used in the following manner:

Repayment of Lompoc CHFA loan (Current balance)	-\$166,965
Equity to be used for other LHCDC projects	-\$333,035

It should be noted that LHCDC's 2003 and 2004 audits were unavailable for review by staff prior to the submission of staff's report for review. Finance

statements and Internal Review Service (IRS) 990 "Return of Organization Exempt From Income Tax" tax return both for 2003 were previously submitted to staff.

Summary

Refinancing accomplishes several purposes. By refinancing the property, LHCDC will pay off the City's CHFA loan. LHCDC will also be taking out \$333,035 in equity, which it will be using for other community projects, including the Lompoc theater project, and supplementing capital replacement reserves on this property and the Voelker apartments, another affordable property owned by LHCDC. LHCDC is also uniquely positioned to take advantage of seller financing, which will provide a second trust deed at 4.8%. LHCDC indicated to staff that commercial lenders are refinancing existing LHCDC properties at 6.5%.

The RDA's affordability covenant on the property will remain in place even after the RDA (or CDBG) loan is paid off. The units will continue to be rented at rents affordable to very low-income tenants. For example, 2-bedroom units rent for \$585 - \$625 and 3-bedroom units rent for \$650. Payments on the City's CDBG loan are current.

Dinah Lockhart, Community Development Program Manager

Arleen T. Pelster, AICP, Community Development Director

APPROVED FOR SUBMITTAL TO THE CITY COUNCIL:

Gary P. Keefe, City Administrator

Attachments:

1. Appraisal Letter from Sharon A. Steele, SRA
2. Refinance Pro Forma submitted by LHCDC
3. CDBG, HOME, and State HOME Loans to LHAC/LHCDC

Re-subordination of Existing CDBG Loan

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