



Yolo County Housing

Lisa A. Baker, Executive Director

147 W. Main Street
WOODLAND, CA 95695

Woodland: (530) 662-5428
Sacramento: (916) 444-8982
TTY: (800) 545-1833, ext. 626

DATE: April 19, 2012
TO: YCH Housing Commissioners
FROM: Lisa A. Baker, Executive Director
SUBJECT: **Ratify Approval to Use \$329,722 from YCH Development Fund to complete Crossroads Acquisition**

RECOMMENDED ACTIONS:

That the Housing Commission:

1. Appropriate an additional \$179,722 from the YCH Development Fund to complete the Crossroads initial acquisition; and
2. Ratify approval of \$329,722 to complete the Crossroads acquisition

BACKGROUND / DISCUSSION:

Crossroads Apartments is located at 646 Third Street, Woodland, CA. Crossroads Apartments was a privately-owned HUD-funded Multi Family project. Yolo County Housing stepped forward when the property was for sale in order to continue to preserve the property's affordability for the community. Ultimately, the property was purchased by our bond pool, Cal-AHA and is managed by a private management company.

On October 2, 2008, the Board authorized Lisa A. Baker, Executive Director of Yolo County Housing (YCH) to act as the Agency's chief negotiator for the potential purchase of real property located at 646 3rd Street, Woodland, CA 95695. On April 2, 2009, the Board authorized the Executive Director to execute a Letter of Intent with Cal-AHA for purchase of the property. Cal-AHA then issued a Bond Anticipation Note to acquire the property. Cal-AHA is the current owner. The bonds expire on May 1, 2012, at which time YCH must either acquire the property or Cal-AHA would need to issue a new bond to pay off the existing bonds.

Subsequent to this transaction, YCH partnered with DFA Development and Dawson Holdings, Inc. to bring forward an acquisition-rehabilitation proposal for the property that would meet the criteria laid out in the Letter of Intent with Cal-AHA for acquisition and rehabilitation of the property. DFA-DHA was unable to complete a financing package to cover the acquisition and rehabilitation. DHA agreed to be released from its agreement and staff retained DFA to work out a development proposal with YCH as the principal developer. At its meeting of December 8, 2011, the YCH Board of Commissioners adopted a Resolution authorizing the formation of a limited partnership with New Hope Community Development Corporation to move forward with the acquisition and rehabilitation of the

property and the Board authorized collateralization of YCH's 1212 "L" street lot in the City of Davis to effect the transaction.

YCH is moving forward with the U.S. Department of Housing and Urban Development (HUD) on a 221 (d) (4) loan and a 4% low income housing tax credit – YCH/New Hope are applying to CDLAC for a forward commitment of a 4% non-competitive tax credit/bond allocation and have already engaged CBRE HMF, Inc/Capital Markets to finance the 221 (d) (4).

This would allow the partnership to acquire and rehabilitate the property. However, YCH has been appraised that completion of the 221 (d) (4) loan could take as long as 8 months to 1 year, which is several months beyond the date at which the bonds must be repaid. Staff is anxious to avoid re-bonding for the property as fees and bond interest will add a heavy burden to the project and ensure that future acquisition and rehabilitation will be too expensive and impossible to complete. With that in mind, YCH reached out to consider private financing. YCH entered into negotiations with First Northern Bank to allow a note to acquire the property and to pay off the outstanding bonds. This would require that Cal-AHA defer its origination fee, that YCH use the "L" street lot as collateral and that YCH use funds from its development fund to close the initial acquisition.

At its meeting of March 15, 2012, the Board authorized the use of \$150,000 from the YCH Development Fund to close the anticipated gap, based on the preliminary commitment letter from First Northern Bank. This commitment was predicated on the bank's appraisal coming in at close to the appraisal already completed that complies with the HUD 221 (d) (4) process.

Unfortunately, the appraisal obtained by the bank on March 30, 2012, came in much lower than the HUD appraisal due to methodology and unrealistic assumptions used by the appraiser. This created a much larger gap than what was originally envisioned. The original expression of interest from the Bank was for an 80% Loan to Value ratio (LTV) resulting in a loan of \$2,664,000, assuming the appraisal came in at \$3,330,000. The final loan amount authorized by First Northern Bank was \$2,292,000, using an 80% valuation on the Crosswoods property and the 1212 "L" street lot in Davis as collateral. This created a gap of \$640,721, more than twice the original gap anticipated, in order to close the transaction.

Financing Structure

Due to the large, unanticipated gap, YCH reached out to CalAHA to negotiate a bridge loan and help "share the burden" with YCH. Accordingly, CalAHA agreed to defer its fee until the close of the 221 (d) (4) loan and to grant two additional bridge loans in the amount of \$220,000 and \$16,000 at the same terms as First Northern Bank – 4% simple interest. The final transaction is as follows:

- \$2,292,000 loan from First Northern Bank
- \$220,000 loan from CalAHA
- \$16,000 loan from CalAHA

- \$75,000 deferred loan from CalAHA (carryback)
- \$329,721.43 equity from YCH (final amount may be slightly different due to actual closing costs)

Ultimately, \$2,292,000 is coming from First Northern Bank, with \$311,000 coming from CalAHA, making YCH's capital investment only 11% of total \$2,940,000.

As stated earlier, the bonds are set to expire on May 1, 2012, meaning that time is of the essence in completing the transaction. Since it took so long for YCH to find financing in the market that has developed after the 2008 financial crisis, CalAHA had embarked on a two-fold strategy – continue to negotiate with YCH for bond payoff while simultaneously moving forward with a re-bonding strategy. The deadline for YCH to close its transaction and pay off the existing bonds was April 16, 2012. At its meeting of April 9, 2012, CalAHA unanimously agreed to make the \$220,000 loan and the \$75,000 fee deferral. On April 11, 2012, CalAHA agreed to make the additional \$16,000 loan to close the final gap.

Options

YCH's options were to allow CalAHA to re-bond, thereby adding heavy additional bond debt to the project and making rehabilitation infeasible, or to negotiate to close the gap with a combination of private funding, bridge loans and YCH equity, thus preserving the future financing of the rehabilitation and improvement of the property. Accordingly, staff acted to preserve the affordability of the project and to preserve its future financing through the HUD 221 (d) (4) process.

Due to the fast moving nature of the transaction, final loan documents were not available at the time of the staff report. If they are available, they will be distributed at the Board meeting. Failing that, they will be distributed at the next Board meeting.

FISCAL IMPACT:

YCH has \$393,000 in its development fund for the purposes of affordable housing development. The pro forma modeling for the above scenario shows that the property provides sufficient funds to pay debt service, return the equity investment and for a developer fee for the project through a future 221 (d) (4) loan and 4% tax credit.

CONCLUSION:

Staff has reviewed the proposed project in light of its obligations under its membership in Cal-AHA, the Cal-AHA Letter of Intent, the authorizations and intent previously given by the Board and recommends that the Board appropriate the necessary funds and ratify the expenditure of funds for acquisition.

ATTACHMENTS:

- Expression of Interest to Provide a Commercial Real Estate Mortgage, March 12, 2012,
- Commitment to Provide a Commercial Real Estate Mortgage, April 5, 2012,
- Receipt, Placer Title Company



March 12, 2012

Lisa Baker
Housing Authority of the County of Yolo
147 W. Main St.
Woodland CA 95695

Re: Expression of Interest to provide a Commercial Real Estate Mortgage on
641-645 2nd Street, Woodland CA, 95695.

Dear Lisa:

In response to your recent request, First Northern Bank is pleased to offer to you an Expression of Interest for a Commercial Real Estate loan involving the following primary terms, it being understood that some additional terms may be required by us before final approval and the final documentation for the loan is signed:

1. Loan Amount:
\$2,664,000 or a maximum advance of 80% of the appraised value of the collateral.
2. Interest Rate:
4.00% Fixed.
3. Maturity:
One year
4. Collateral:
Deed of Trust of first priority covering that real property and improvements located at 641-645 2nd Street, Woodland CA 95695 plus additional collateral of a Deed of Trust of first priority covering the real property on a residential lot in Davis.
5. Title Insurance:
ALTA Extended Loan Coverage Policy and those endorsements we may require for the amount of the loan, subject only to those liens, easements and restrictions as may be acceptable to us.
6. Appraisal:
The real property collateral must be appraised at an amount no less than \$3,330,000 by an appraiser acceptable to us, using appraisal methods and standards acceptable to us. The appraisal must be procured by First Northern Bank, with First Northern Bank as the client, for purposes specified by First Northern Bank.

7. Loan Purpose:
Purchase of an apartment building located at 641-645 2nd Street,
Woodland CA 95695
8. Fees:
Loan Fee: .25% (\$6,660) plus \$495 documentation fee.

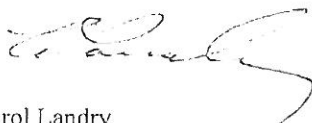
Other Fees: appraisal, appraisal review, title fees, environmental reports
and other out-of-pocket expenses.
9. Prepayment Penalty:
None.
10. Repayment:
Twelve payments of approximately \$12,700 a month based on a thirty
year amortization. The balance will be due at maturity.
11. Guaranties:
None.
12. Conditions:
Satisfactory Phase 1 report dated within the last two years
Satisfactory condition report

This Expression of Interest may not be limited to the above terms and conditions. Additional terms and conditions may apply at final approval and there may be other documentation required from you during the underwriting of your loan request.

If you choose to accept this offer, please sign and return to us the enclosed copy of this letter on or before March 16, 2012. Further, the requested loan must be completely negotiated, documented and closed by May 1, 2012 or this proposal will expire. This expression of interest is not a commitment to lend. A final loan commitment is subject to First Northern Bank's formal approval of this request after it has been fully underwritten including collateral valuation, environmental due diligence, and may be subject to such additional terms, conditions and requirements as may be provided in our loan documents or required by us or our counsel.

I look forward to working with you in completing this loan transaction. If you have any questions please call me at 530-297-2062. Thank you for banking with First Northern Bank.

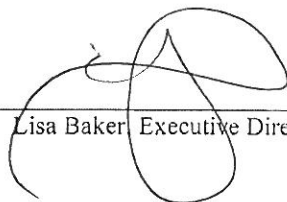
Sincerely,



Carol Landry
Vice President/Commercial Loan Team Manager

Accepted and agreed to this, 12th day of March, 2012.

By: _____
Lisa Baker Executive Director





FIRST NORTHERN BANK

April 5, 2012

Lisa Baker
Housing Authority of the County of Yolo
147 W. Main St.
Woodland CA 95695

Re: Commitment to provide a Commercial Real Estate Mortgage on
641-645 2nd Street, Woodland CA, 95695.

Dear Lisa:

In response to your recent request, First Northern Bank is pleased to offer to you a loan for a Commercial Real Estate loan involving the following primary terms, it being understood that some additional terms may be required by us before the final documentation for the loan is signed:

- i. Loan Amount:
\$2,292,000
2. Interest Rate:
4.00% Fixed. Interest will accrue daily on the basis of a 365 day year.
3. Maturity:
One year
4. Collateral:
Deed of Trust of first priority covering that real property and improvements located at 641-645 2nd Street, Woodland CA 95695 plus additional collateral of a Deed of Trust of first priority covering the real property at 1212 L Street, Davis. California Commercial Code Security interest of first priority in all furniture, fixtures and equipment located at 641-645 2nd Street, Woodland CA 95695.
5. Title Insurance:
ALTA Extended Loan Coverage Policy and those endorsements we may require for the amount of the loan, subject only to those liens, easements and restrictions as may be acceptable to us.
6. Loan Purpose:
Purchase of an apartment building located at 641-645 2nd Street, Woodland CA 95695
7. Fees:
Loan Fee: .25% (\$5,730) plus \$495 documentation fee.

Other Fees: appraisal, appraisal review, title fees, and other out-of-pocket expenses.

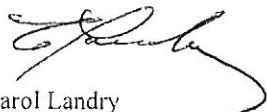
9. Prepayment Penalty:
None.
10. Repayment:
Twelve payments of approximately \$10,942 a month based on a thirty year amortization. The balance will be due at maturity.
11. Guaranties:
None.
12. Conditions:
Borrower to maintain a minimum Debt Service Coverage Ratio (Net Operating Income/Debt Service on this loan) of 1.25 measured at 12/31 annually.
Borrower to provide annual audited financial statements and an annual 12/31 income statement for Crosswood Apartments.
Borrower may extend the maturity at the same rate and terms for an additional three years for a loan fee of .25% of the principal balance.

You agree to pay or reimburse us for any real property appraisal fees and the costs for all title and lien searches, filings, title insurance premiums or the like we may incur in connection with perfection of our rights as to this loan.

If you choose to accept this offer, please sign and return to us the enclosed copy of this letter on or before April 9, 2012. Further, the requested loan must be completely negotiated, documented and closed by May 1, 2012 or this commitment will expire. Our commitment is also conditioned on there not having occurred by the time we are to advance funds an event of default relating to any agreement for the loan or an event which with the giving of notice or lapse of time or both would constitute such an event of default.

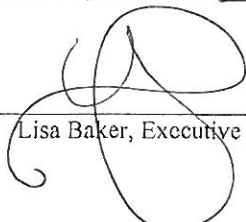
I look forward to working with you in completing this loan transaction. If you have any questions please call me at 530-297-2062. Thank you for banking with First Northern Bank.

Sincerely,



Carol Landry
Vice President/Commercial Loan Team Manager

Accepted and agreed to this, 5th day of April, 2012.

By: 

Lisa Baker, Executive Director

RE: 641-645 2ND STREET, WOODLAND,

**PLACER TITLE COMPANY
RECEIPT**

Escrow No. 404-8798

Receipt No. 500392343

Date: April 05, 2012

Amount \$329,721.43

Received From: YOLO CO. HOUSING

Check Date: April 05, 2012

Check No. 012689

Bank # 121105156

Customer's Bank: FIRST NORTHERN BANK

Deposit Type: Check Received

Escrow Officer: Jenny M. Vega

Received By: Cecilia Villanueva

Customer Copy