

M E M O R A N D U M

To : Board of Directors

Date : June 25, 1996

From : CALIFORNIA HOUSING FINANCE AGENCY

Subject : Predevelopment Loan Program Approvals

ISSUE:

At the May 9, 1996 Board of Directors meeting, the question was raised whether Predevelopment Loans should be brought to the Board for review and approval.

BACKGROUND:

A proposed Predevelopment Loan Program - Multifamily for non-profit developers was included in the FY 95-96 Five-Year Business Plan presented to the Board May 11, 1995, and the Program specifics were presented to the Board September 14, 1995 as follows:

An annual allocation of up to \$2.5 million.

Eligible projects consist of 5 or more units of new construction, acquisition or acquisition requiring rehabilitation.

Maximum loan amount of \$250,000.

Maximum loan term of 24 months, repaid no later than construction loan closing.

Loan secured by tangible assets.

Loan proceeds may be used to pay for direct costs such as architectural or engineering costs, permits and related fees, land purchase or land holding costs. Loan proceeds may not be used for administration expenses or hard construction costs.

Initial interest rate the greater of the 11th District Cost of Funds plus 2 points or the west coast commercial

banks prime rate reduced to 3% retroactively following final commitment approval of a CHFA permanent mortgage loan.

1.5% non-refundable loan fee to be paid at loan disbursement. 1.0% of the 1.5% loan fee to be credited against fees charged on the CHFA permanent mortgage loan.

The Predevelopment Loan Program was included in the Business Plan in response to one of the issues raised in focus group meetings with a variety of non-profit sponsors throughout California. It was represented in those sessions that predevelopment monies were becoming more scarce in an era of dwindling public resources, that the need for affordable housing was increasing, and there was a need for new sources of development loan assistance.

CHFA's Predevelopment Loan Program was created with a two-fold purpose, to provide an additional source of predevelopment loan monies and to generate new and stronger business relationships with qualified non-profit developers.

The Board discussion was concerned with the level of risk attendant to a Predevelopment Loan program and the character of the security that would be required to mitigate that risk. Staff explained that our previous and ongoing experience with predevelopment loans to small business developers has resulted in about a 2.5% loss ratio. Staff attributes this low loss ratio in a high risk loan program to the loan evaluation process which determines future feasibility, assesses at what point in the development process the loan request is being made, and determines the most appropriate security for the loan.

The Board approved the Predevelopment Loan Program with the caveat that for the first year all such loans be brought to the Board of Directors for their consideration.

The first such loan for \$58,020 was presented to the Board at the May 9, 1996 Board meeting and approved. During the discussion, the question was raised whether Predevelopment Loans should continue to be brought before the Board for review and action given the relative dollar size of the transactions.

RECOMMENDATION:

It is recommended that the Board of Directors delegate the loan approval authority for the Predevelopment Loan Program - Multifamily to the Executive Director, or in his/her absence, the Deputy Director or Director of Programs of the Agency, and that semi-annual reports be provided to the Board regarding the Predevelopment Loan activity.

RESOLUTION NO. 96-20

RESOLUTION TO CLARIFY
RESOLUTION 95-27

WHEREAS, the Agency has authority to make loans for the purpose of developing multifamily rental housing for low and moderate income tenants; and

WHEREAS, the Board of Directors of the California Housing Finance Agency (the "Board") adopted Resolution No. 95-27 on September 14, 1995 for the purpose of setting forth the terms and conditions under which such predevelopment loans are to be made; and

WHEREAS, the Board wishes to amend Resolution No. 95-27 to clarify and change portions of it;

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors (the "Board") of the California Housing Finance Agency that Resolution No. 95-27 shall be amended to read as follows:

1. "The Agency shall have the authority subject to the approval of the Executive Director, or in his/her absence, the Deputy Director or Director of Programs and subject, for the first year of the program, to the semi-annual reporting requirement described below, to make multifamily predevelopment loans to qualifying Nonprofit 501(c)(3) housing developers subject to the following limitations:"
 - a) The maximum loan amount shall be \$250,000;
 - b) The term of the predevelopment loan shall be twenty-four (24) months, unless extended, in the discretion of the Executive Director of the Agency;
 - c) Eligible projects shall consist of five (5) or more units of existing housing, existing housing requiring rehabilitation, or new construction;
 - d) The interest rate on the loans shall be the greater of the 11th District Cost of Funds, plus two (2) points, or the West Coast banks prime rate of interest, provided, however, that the interest rate shall be reduced to 3% retroactively, when and if a CHFA Final Commitment for a permanent mortgage loan is approved by the Agency.

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- e) The loans shall be secured by tangible assets of the nonprofit housing developers, including but not limited to, the real and personal property of the eligible project; and
- f) A nonrefundable Predevelopment Loan Fee equal to 1.5% of the loan amount shall be paid by the borrower to the Agency at the time of the predevelopment loan disbursement, provided, however, that of such Predevelopment Loan Fee the amount representing 1% of the loan amount will be credited towards CHFA's permanent loan fee at the permanent loan closing."
- g) Any other terms and conditions that the Executive Director or Director of Programs shall, in their discretion, determine is necessary to protect the Agency's interests.
- h) For the first year of the program, the Board shall be provided with semi-annual reports regarding activity under this program. Such reports shall identify, in a clear and concise manner, the number of loans made under the program, the principal amounts of such loans and identification of the developer and development activity financed by such loans.

4. This resolution completely replaces Resolution No. 95-27.

I hereby certify that this is a true and correct copy of Resolution 96-20 adopted at a duly constituted meeting of the Board of Directors of the California Housing Finance Agency held on July 11, 1996 at Millbrae, California.

ATTEST: _____
Secretary

M E M O R A N D U M

To : CHFA Board of Directors

Date : August 29, 1995

From : G. Richard Schermerhorn
CALIFORNIA HOUSING FINANCE AGENCY

Subject : Predevelopment Loan Program - Multifamily

Action Requested

Approval is requested for the Board to establish a Predevelopment Loan Program - Multifamily for nonprofit [501(c)(3)] housing developers.

The purpose of the CHFA Predevelopment Loan Program Multifamily is to provide temporary funding for nonprofit developers for assistance with land acquisition and predevelopment costs of affordable multifamily housing projects financed by CHFA. CHFA intends to fund this program with Housing Assistance Trust (HAT) funds.

Background

The Predevelopment Loan Program - Multifamily designed to assist nonprofit housing developers with new construction, acquisition and acquisition requiring rehabilitation was included as part of CHFAs 1995-1999 Business Plan. The annual allocation for this program is \$2,500,000.

Over the past few years various resources such as HOME, CDBG, Low Income Tax Credits, REOs, and local Agency Tax Increments have provided nonprofits with opportunities to produce affordable multifamily rental housing.

However a major impediment continues to be a lack of sufficient funds for the preliminary financial requirements associated with acquiring or optioning projects/sites and other startup costs. The Predevelopment Loan Program - Multifamily is designed to help address this problem by providing a financial tool necessary for qualified nonprofit housing sponsors to initiate the development process.

Our program development process included consulting with statewide membership organizations representing affordable housing, community economic development, consumer

August 29, 1995

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organizations, local governments, lenders and other interested parties.

Although there was consensus that a successful predevelopment loan program would benefit both the nonprofit community and the Agency, it was clear that it was impractical to condition approval of a predevelopment loan on a future commitment to a CHFA mortgage loan. Since one of the objectives of this program would be to develop additional Agency mortgage financing business, we developed the following financial incentive approach:

At the time a predevelopment loan is approved the interest rate would be set at the 11th District Cost of Funds plus 2 points or the West coast commercial banks prime rate, whichever is highest. When the development loan results in an approved CHFA permanent financed loan, the interest rate would be reduced to 3% retroactively.

A 1.5% Predevelopment Loan fee would be paid at loan disbursement, however 1% of that fee would be credited to the CHFA permanent loan financing fee at permanent loan close.

Recommended Action

It is recommended that the Board approve the Predevelopment Loan Program - Multifamily for nonprofit [501(c)(3)] housing developers with the following program parameters:

- \$250,000 maximum loan amount
- maximum 24 month loan term, repaid no later than construction loan closing
- Initial interest rate the greater of the 11th District Cost of Funds plus 2 points or the West coast commercial banks prime rate reduced to 3% retroactively when a CHFA permanent mortgage loan is approved for the project.
- Eligible projects to consist of 5 or more units of new construction or acquisition/rehabilitation.
- Eligible borrowers are Nonprofit 501(c)(3) housing sponsors
- Loan to be secured by tangible assets

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RESOLUTION NO. 95-27

RESOLUTION TO ADOPT
A MULTIFAMILY PREDEVELOPMENT LOAN PROGRAM

WHEREAS, the Agency has authority to make loans for the purpose of developing multifamily rental housing for low and moderate income tenants; and

WHEREAS, the Agency has determined there is a need for predevelopment loans to assist nonprofit developers in acquiring land and paying the predevelopment costs of affordable multifamily housing, the permanent loan on which is financed by the Agency; and

WHEREAS, the Agency, as part of its 1995-1999 Business Plan, approved the allocation of \$2,500,000 annually for a Multifamily Predevelopment Loan Program for nonprofit housing developers,

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors (the "Board") of the California Housing Finance Agency as follows:

1. The Agency shall have authority to make multifamily predevelopment loans to qualifying Nonprofit 501(c)(3) housing developers subject to the following limitations:
 - a) The maximum loan amount shall be \$250,000;
 - b) The term of the predevelopment loan shall be twenty-four (24) months, unless extended, in the discretion of the Executive Director of the Agency;
 - c) Eligible projects shall consist of five (5) or more units of existing housing, existing housing requiring rehabilitation, or new construction;
 - d) The interest rate on the loans shall be the greater of the 11th District Cost of Funds, plus two (2) points, or the West Coast banks prime rate of interest;
 - e) The loans shall be secured by tangible assets of the nonprofit housing developers, including but not limited to, the real and personal property of the eligible project; and

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f) Any other terms and conditions that the Executive Director or Director of Programs shall, in their discretion, determine is necessary to protect the Agency's interests.

I hereby certify that this is a true and correct copy of Resolution 95-27 adopted at a duly constituted meeting of the Board of Directors of the California Housing Finance Agency held on September 14, 1995 at Millbrae, California.

ATTEST: _____
Secretary