Acquisition Financing
Summary

- Non-profits unable to compete with conventional buyers.
- Locality funding resources reduced.
- Conventional lenders reluctant to interim finance.
- Sponsors prefer 4% tax credits.
Credit Risk

- 1st Tier - Permanent Financing
- 2nd Tier - Construction Financing
- 3rd Tier - Interim Financing
Acquisition Financing

- Eligible Developments - existing projects at risk of subsidy loss.
- Eligible Borrowers - Non-profit, for-profit & public agencies
- Maximum Loan - up to 100% for nonprofits, up to 95% for for-profits
- Terms - 1st mortgage, fixed rate up to 2 yr
  - 5% for nonprofits, 7% for for-profit
- Exit Strategy
Preservation Financing
Rowland and Plum Tree Projects

Equity

CHFA
Construction Lender
CHFA

HUD 236 IRP Loan

Acquisition  Construction  Permanent
State of California

MEMORANDUM

To: CHFA Board of Directors

Date: November 3, 1999

From: G. Richard Schermhorn, Director of Programs

CALIFORNIA HOUSING FINANCE AGENCY

Subject: Acquisition Financing - Preservation

At the September 9, 1999, CHFA Board meeting we provided the Board with a status report on affordable housing preservation activity which included a summary of our most recent client and focus group meetings regarding the current status of the preservation market, the applicability of our loan programs, and recommendations. The one recommendation that was consistently offered in all of our discussions was the need for an acquisition financing program.

Our client groups stated that:

- although they are interested in acquiring at-risk projects, they are not in a position to compete with conventional buyers who are financially capable of closing a purchase within 60 to 90 days. They point out that it often takes at least a year to put together the necessary financing from multiple sources to be able to purchase and rehab a project and that sellers are generally not interested in waiting that long.

- the general availability of locality set-aside funding has been reduced now that the accumulated pool of funds has been substantially utilized leaving only the annual stream of set-aside monies to fund affordable housing demand.

- conventional lenders are not inclined to provide interim financing for acquisitions because of the uncertainty of permanent financing and bond allocation.

- given a choice between using 501(c)(3) long term bond financing and tax-exempt financing with 4% tax credits, they would prefer the latter as the tax credit equity is of greater value to the financing needs of a project.
As we indicated at the last Board meeting, the non-profit sponsors have requested that we consider providing interim acquisition financing to facilitate the preservation of at-risk affordable housing units. Since one of our multifamily housing objectives is to provide alternative financing not generally available in the marketplace, we have considered this request recognizing that it involves greater credit risk than our current financing programs.

We view multifamily financing credit risk in three categories:

- **Permanent Financing** - the first risk tier where the Agency assumes credit risk following construction. The most conservative approach for a permanent financing would involve fixed rate, fully amortizing loans with debt service coverage ratios in excess of 1:25 and funding upon achievement of predetermined rentup schedules. CHFA generally does not have a rentup requirement and will consider DSC’s as low as 1.05.

- **Construction Financing** - the second risk tier where a lender assumes the credit risk of the successful development of a project that meets the requirements of the permanent financing commitment. CHFA generally does not provide construction financing as there are sufficient conventional lenders staffed and willing to provide this service. Occasionally we assume some second tier risk usually in acquisition/rehab projects where it is essential to acquire the project and then perform a limited amount of rehab within a 9-12 month period.

- **Interim Financing** - the third risk tier where a lender assumes the credit risk of financing a project based on short term interest rates with the expectation that permanent financing will be available to stabilize the long term debt costs and retire the interim loan.

We historically have assumed the credit risk associated with permanent financing, and during the late 1970's and early 1980's assumed both the construction and permanent financing risk for Section 8 project based projects. The Agency has not previously offered a structured interim financing program.

The proposed interim acquisition financing program differs from other CHFA financing in that it does not have the permanent financing in place. There have been instances in which the Agency has financed the acquisition of a project which has then undergone rehab, but we provided the permanent funding commitment at the time of the acquisition thereby assuring the pennant loan.

This interim acquisition financing program proposal would be for transactions where a guaranteed permanent financing is not yet in place. The credit risk associated with this approach is primarily a function of the validity of the proposed exit strategy.

As has been demonstrated in earlier Board presentations, the economic conditions in many California markets have created substantial economic incentives to convert current affordable housing units to market rate. The ability of affordable housing sponsors to mitigate this situation is being hampered by a lack of appropriate financing. Therefore we are proposing that the Board approve an interim financing program, subject to approval by the Board of
individual project proposals, with the following parameters:

* Eligible Developments - existing projects at risk of loss of subsidy support.

* Eligible Borrowers - Non-profit, for-profit and public agencies.

* Maximum Loan - up to 100% of acquisition cost for qualified non-profits and public agencies,
  - up to 95% of acquisition cost for for-profits.

* Terms - 1st mortgage loan, fixed rate up to 2 years:
  5% for qualified non-profits and public agencies,
  7% for for-profits.

* Exit Strategy - Any proposed interim financing proposal must have an exit strategy satisfactory to the Agency.

Since the $20 million 501(c)(3) permanent financing program in this year's Business Plan will be substantially under-utilized, we propose that the interim financing program be incorporated into that Business Plan objective.
RESOLUTION NO. 99-37

RESOLUTION TO IMPLEMENT
THE MULTIFAMILY ACQUISITION FINANCING (INTERIM) — PRESERVATION PROGRAM

WHEREAS, the California Housing Finance Agency (the "Agency") has authority to make loans for the purpose of developing multifamily rental housing for low and moderate income tenants; and

WHEREAS, there is an urgent need in the State to provide alternate financing for the purposes of preserving multifamily rental housing subject to conversion from low and moderate income to market rate occupancy; and

WHEREAS, the Board wishes to implement a program which provides interim financing for the preservation of at-risk housing.

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

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, to provide interim acquisition financing for existing multifamily developments in accordance with the terms as specified in the memorandum to the Board from the Director of Programs, dated November 3, 1999 and attached hereto.

I hereby certify that this is a true and correct copy of Resolution 99-37 adopted at a duly constituted meeting of the Board of Directors of the California Housing Finance Agency held on November 4, 1999 at Millbrae, California.

ATTEST:

Secretary
November 3, 1999

TO: CHFA Board of Directors
Clark Wallace, Chair  Judy Nevis
Carrie Hawkins  Ken S. Hobbs
Phil Angelides  Robert N. Klein II
Ed Czuker  Tim Gage
Maria Contreras-Sweet  Loretta Lynch
Angela L. Easton  Angelo R. Mozilo

FROM: Theresa A. Parker, Executive Director

It gives me great pleasure to let you know that CHFA received two highly coveted Awards for Program Excellence at the recent Annual Conference of the National Council of State Housing Agencies (NCSHA) in Chicago.

NCSHA's Annual Awards for Program Excellence honors state housing finance agencies for their implementation of outstanding public purpose programs and projects. The awards are given in thirteen categories encompassing affordable housing components in the areas of homeownership, rental housing, special needs housing, management innovations, federal legislative campaign and communications. In all, NCSHA received 146 entries (8 from CHFA) and we received two of the thirteen awards presented for program excellence.

CHFA was recognized in the category of "Management Innovation: Financial and Operations Management" for the methods used Managing the Private Activity Bond Resource and in the "Homeownership: Empowering New Buyers" category for its Affordable Housing Partnership Program (AHPP).

Managing the Private Activity Bond Resource recognizes CHFA's management strategy for single family loans which involves using the limited allocation of $228 million in tax-exempt bonds with a high percentage of taxable bonds to create a capital pool of approximately $862 million in lendable funds, resulting in approximately 7,600 additional first-time homebuyers being served last year.
TO: CHFA Board Of Directors

PROM: Terri Parker

November 3, 1999
Page Two

Affordable Housing Partnership Program (AHPP) was created to assist the particular needs of Californians who are unable to afford downpayment and closing costs associated with a home purchase. The California Housing Finance Agency joined forces with cities and counties ~ a total of 92 local government agencies and 7 nonprofit organizations -- to further a shared goal of increasing homeownership opportunities throughout the state.

Our two Kens (Ken Carlson, Director of Financing, and Ken Williams, Single Family Programs Director) and their outstanding staff were the architects of these two award-winning programs. They typify the professionalism and creativity of our Agency.

All of us at CHFA stand ready to work with the Board to continue creating new and innovative products to serve the housing needs of Californians and also serve as examples for replication by other states in meeting the affordable housing needs across our great nation.

TAP/jdb

cc Julie Bornstein
Jeanne Peterson
Annette Porini
RESOLUTION 99-33

RESOLUTION AUTHORIZING A FINAL LOAN COMMITMENT

WHEREAS, the California Housing Finance Agency (the "Agency") has received a loan application from Thomas H. Corley and TELACU, a California nonprofit public benefit corporation, (the "Borrower"), seeking a loan commitment under the Agency's Tax-Exempt Loan Program in the mortgage amount described herein, the proceeds of which are to be used to provide a mortgage loan on a 74-unit multifamily housing development located in the City of South Gate to be known as South Gate Senior Villas (the "Development"); and

WHEREAS, the loan application has been reviewed by Agency staff which has prepared its report dated October 18, 1999 (the "Staff Report") recommending Board approval subject to certain recommended terms and conditions; and

WHEREAS, Section 1.150-2 of the Treasury Regulations requires the Agency, as the issuer of tax-exempt bonds, to declare its reasonable official intent to reimburse prior expenditures for the Development with proceeds of a subsequent borrowing; and

WHEREAS, on October 18, 1999, the Executive Director exercised the authority delegated to her under Resolution 94-10 to declare the official intent of the Agency to reimburse such prior expenditures for the Development; and

WHEREAS, based upon the recommendation of staff and due deliberation by the Board, the Board has determined that a final loan commitment be made for the Development.

NOW, THEREFORE, BE IT RESOLVED by the Board:

1. The Executive Director, or in his/her absence, either the Chief Deputy Director or the Director of Programs of the Agency is hereby authorized to execute and deliver a final commitment letter, subject to the recommended terms and conditions set forth in the CHFA Staff Report, in relation to the Development described above and as follows:

<table>
<thead>
<tr>
<th>PROJECT NUMBER</th>
<th>DEVELOPMENT NAME/ LOCALITY</th>
<th>NUMBER OF UNITS</th>
<th>MORTGAGE AMOUNT</th>
</tr>
</thead>
<tbody>
<tr>
<td>99-003-S</td>
<td>South Gate Senior Villas</td>
<td>75</td>
<td>$2,300,000</td>
</tr>
</tbody>
</table>
2. The Executive Director, or in his/her absence, either the Chief Deputy Director or the Director of Programs of the Agency is hereby authorized to increase the mortgage amount so stated in this resolution by an amount not to exceed seven percent (7%) without further Board approval.

3. All other material modifications to the final commitment, including increases in mortgage amount of more than seven percent (7%), must be submitted to this Board for approval. "Material modifications" as used herein means modifications which, when made in the discretion of the Executive Director, or in his/her absence, either the Chief Deputy Director or the Director of Programs of the Agency, change the legal, financial or public purpose aspects of the final commitment in a substantial or material way.

I hereby certify that this is a true and correct copy of Resolution 99-33 adopted at a duly constituted meeting of the Board of the Agency held on November 4, 1999, at Millbrae, California.

ATTEST:____________________
Secretary
MEMORANDUM

To: CHFA Board of Directors

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