



Good Neighbors

San Diego
Housing Commission

REPORT

DATE ISSUED: November 19, 2004

ITEM 101

REPORT NO.: HCR04-97
For the Agenda of December 10, 2004

SUBJECT: Loan Modification – 4058 National Avenue (Council District 4)

SUMMARY

Issue: Should the Housing Commission convert the previously unsecured \$171,850 predevelopment loan to a loan secured by a property owned by the same borrower?

Recommendation: Increase the Housing Commission's Promissory Note and Deed of Trust secured by 4058 National Avenue from \$175,960 to \$347,810 to include the principle amount of \$171,850 borrowed by Bayview Community Development Corporation under a predevelopment loan for the property at 325 54th Street. All other terms and conditions of the secured loan will remain in full force and effect.

Previous Related Action(s): On May 10, 2002, the Housing Commission approved an unsecured predevelopment loan of up to \$173,887 to Bayview Community Development Corporation for development of multifamily rental housing at 325 54th Street.

BACKGROUND

In June 2002, the Housing Commission funded a \$171,850 predevelopment loan to Bayview Community Development Corporation (Bayview CDC) for predevelopment costs associated with acquisition of Acacia Imperial Trailer Park located at 325 54th Street and future construction of a 144-unit affordable rental housing complex on the site. Bayview CDC used the loan funds to obtain site control and complete conceptual designs.

Recognizing its insufficient expertise to undertake a development of this magnitude, Bayview CDC contracted with KCW Consulting to act as the developer. Bayview CDC and KCW Consulting formed Bayview Legacy Residences I, Limited Partnership. In April 2004, Mr. Wilson, owner of KCW Consulting, used his own financial resources to purchase the trailer park and obtain the development permit from the City based on the architect's design work. As



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a requirement of financial assistance for the Acacia redevelopment, the Housing Commission and the Southeastern Economic Development Corporation required Bayview Legacy to obtain project approval from the community planning group. The Encanto Neighborhood Community Planning Group reviewed the project and rejected the design of a multi-family complex because of density; the community also wanted a project with a for-sale component. The Housing Commission's Loan Committee also expressed concerns about the density and design of the project.

Concurrently, Bayview CDC underwent financial and organizational restructuring. In the midst of these events, Bayview CDC was not able to repay the \$171,850 predevelopment loan. The structure of the Bayview Legacy Residences I partnership enabled Bayview CDC to be released as a partner leaving KCW Consulting in control of the partnership and owner of the 54th Street property. Currently, Mr. Wilson is exploring alternative plans for the site and continues operating the property as a trailer park.

DISCUSSION

Bayview CDC acknowledges its obligation to repay the unsecured \$171,850 predevelopment loan that was due on June 30, 2004, but does not have funds for repayment. Housing Commission staff has been working with Bayview CDC to develop an alternative.

Bayview CDC holds title to other properties in the City of San Diego, including a six-unit rental property located at 4058 National Avenue that was purchased from the Housing Commission in March 1998. To assist Bayview CDC with the purchase of National Avenue, the Housing Commission funded a \$175,960 loan that included the purchase price of \$160,000 and expenses totaling \$15,960. An appraisal of the property completed in September 2004 estimated the market value of the National Avenue site to be \$650,000.

Housing Commission staff is recommending that the loan secured by National Avenue be modified to include the \$171,850 borrowed for 54th Street. The existing terms and conditions for the National Avenue loan would remain in full force and effect (simple interest at three percent per annum). To the extent there are residual receipts, on an annual basis, the Housing Commission will receive 50 percent of the available receipts. All principal and accrued interest is due and payable in 55 years (March 2053).

In conclusion, with this action, the unsecured predevelopment loan will be fully collateralized by the National Avenue property; the loan amount will increase from \$175,960 to \$347,810 and will be well secured with a 54 percent loan-to-value ratio.

ALTERNATIVES

Deny the recommendation to modify the loan for National Avenue to include the \$171,850 predevelopment loan. The terms of the Promissory Note for the \$171,850 loan allow the Commission to forgive the indebtedness if it is deemed in the best interest of the Commission.

Alternatively, the predevelopment loan was due and payable on June 30, 2004. Because it was not paid in full when due, the Commission could declare a default and require the entire balance due, plus default interest. Because Bayview CDC is a nonprofit with limited assets, this action might result in taking over a community development corporation's asset.

Respectfully submitted,

**Signature on File
With Original Document**

Approved by,

Cissy Fisher
Director Housing Finance and Development

Elizabeth C. Morris
President and Chief Executive
Officer