



Good Neighbors

San Diego
Housing Commission

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REPORT

DATE: For the Agenda of October 12, 2001

ITEM 102

REPORT NO: HCR01-112

SUBJECT: Coronado Terrace Request for Subordination to Construction Loan
(Council District 8)

SUMMARY

Issue: Should the Housing Commission approve a request to subordinate the Housing Commission's loan to a construction loan in the amount of \$2,000,000, until the completion of the rehabilitation work, as further described in this report?

Recommendation: That the Housing Commission approve the subordination request.

Fiscal Impact: None with this action.

Affordable Housing Impact: None. Subordination to the construction loan would not affect rent paid by residents. Development of this project will preserve 310 units of affordable housing stock (266 two-bedroom and 44 three-bedroom units) with 100% of the units affordable to very low- and low-income households. Rents range from 50% to 62% of median area income; occupancy of the units will be restricted to households earning 50% and 62% of median area income. The units will be affordable for a term of 55-years.

Previous Related Actions: The Housing Commission approved a loan for Coronado Terrace on February 9, 2001 (HCR01-020); the Housing Authority approved a loan for Coronado Terrace on February 13, 2001 (HA Resolution No. 1089); loan term modifications were approved by the Housing Commission May 11, 2001 (HCR01-039), and by the Housing Authority May 29, 2001 (HA Resolution No. 1104).



BACKGROUND

The Related Companies, LLC and Wakeland Housing and Development Corporation (Related/Wakeland) submitted an application to acquire and rehabilitate Coronado Terrace, a 312-unit apartment complex. The project involves the preservation of units originally developed in 1971 under a HUD Section 236 mortgage and regulatory agreement. The Commission provided a \$1,400,000 loan as part of a financing package that includes tax-exempt bonds and 4% tax credits. The acquisition and project financing closed on July 31, 2001.

This report is being presented to specifically request approval of the subordination of the Commission's Deed of Trust to the project construction loan, as this was not addressed in the prior board approval.

DISCUSSION

At the time of loan approval at the Housing Commission, the exact amount and terms of the construction loan were not known. The loan approval stated that the Commission's lien would be junior to the total amount of CHFA permanent financing, a construction loan for the term of the rehabilitation, and a HUD 241(f) loan until it was paid off at year 3. The loan-to-value, including the Housing Commission's loan was 84%.

By the time of closing, the construction loan amount was identified as \$2,000,000, to be secured by a Deed of Trust payable to American Mortgage Acceptance Company. At closing, this Deed of Trust was recorded junior to the Commission's Deed of Trust, with a provision in the Loan Agreement that staff would request subordination, as is typically done for construction loans on development projects.

Subordination to the \$2,000,000 construction loan until the completion of construction is a risk typically taken by the Commission, and in this instance is small compared to the total development cost of the project of \$30,308,018. The effect on loan-to-value during the construction period would be to change it from 84% to 88%, which is still within Housing Commission underwriting guidelines. Following the completion of construction and conversion to permanent financing, the Commission's loan-to-value would be 86%.

Staff is recommending subordination to the construction loan because it will not significantly increase the risk to the Commission's loan nor add to the cost of preserving the 312 family units.

ALTERNATIVE

The proposed subordination could be rejected which would cause a gap in the construction financing and most likely increase the cost of preserving the units

Respectfully submitted,

Pat Duplechan
Director, Housing Programs

**Signature on File
With Original Document**

Approved by,

Elizabeth C. Morris
Chief Executive Officer

DEWITT: G/HFShare/Reports/VistaTerrace/VT-CT.HCchng.doc

- Attachments:
1. Coronado Terrace Project Location Map
 2. Coronado Terrace Sources