

**REPORT****DATE ISSUED:** June 26, 2009

REPORT NO.:HCR09-059

**ATTENTION:** Chair and Members of the Housing Commission  
For the Special Meeting Agenda of June 29, 2009**SUBJECT:** San Diego Housing Commission \$20,000,000 Interim Revolving Line Of  
Credit to Facilitate Acquisition and/or Production of At Least 350 Affordable  
Units  
(Citywide)**REQUESTED ACTION:**

Approve the acquisition of short-term interim acquisition financing for affordable housing units until such time that the permanent financing method is approved and in place in accordance with the provisions of Acquisition Policy 300.103.

**STAFF RECOMMENDATION:**

- a) Housing Commission approve the \$20,000,000 interim revolving line-of-credit from U.S. Bank to the San Diego Housing Commission, on terms and conditions approved by the Chief Executive Officer (CEO) and as referenced within this report and as approved by General Counsel; and
- b) The CEO, or designee, is authorized to execute any and all documents and to perform any and all acts reasonably necessary to acquire and to document and memorialize the line-of-credit, on terms and conditions approved by General Counsel, and as referenced within this report.
- c) Housing Commission Board authorize the CEO, or designee, to expend such funds as are necessary to acquire the line of credit, including the expenditure of funds for third party reports, loan application fees, and such other and further expenses as may be reasonably necessary to acquire the interim line of credit.
- d) Authorize the CEO, or designee to execute a resolution approving the actions referenced within this report, in a form and format, as approved by General Counsel.

**BACKGROUND**

The Housing Commission submitted an application to transition from the Federal public housing program to the U.S. Department of Housing and Urban Development (HUD) in March 2007 and received approval on September 10, 2007 to "dispose" of the public housing stock (excepting thirty-six units that were in acquisition stage resulting from a taking of units by the San Diego Unified School District). The approval included the transfer of title to the units to the Housing Commission and new Housing Choice Vouchers made available to the Housing Commission. In addition, as proposed in the original application, the Housing Commission agreed to leverage the equity in the former public housing units to create a minimum of 350 additional affordable units.

The 1366 housing units that were the subject of this approval continue to be rented to low income households at rent levels affordable to either 50% AMI (\$41,300 for a family of four), 80% AMI (\$66,100 for a family of four) or at market rate rents, whichever is less.

On April 7, 2008, a Request for Proposals (RFP) for Financing Services was issued to support the efforts of the SDHC in the creation of the 350 affordable housing by providing long term and/or short term financing for new acquisitions and leveraging of the existing real estate portfolio. Five proposals were received at the close of solicitations: U.S. Bank, Citi Community Capital, Fannie Mae, Pacific Housing Advisors and Balboa, and RED Capital Group.

In the fall of 2008, the Housing Commission and Housing Authority approved entering into exclusive negotiations with Citi Community Capital. Shortly thereafter, the local offices of Citi Community Capital were closed and negotiations ceased. Further negotiations were then held with RED Capital Group and U.S. Bank. The proposal being brought forward is from U.S. Bank and is for interim or short-term financing while details of a permanent financing plan are still being negotiated and structured. Proceeds of the U.S. Bank line-of-credit will be used to initially finance the acquisition of proposed affordable housing projects that will be counted toward satisfaction of the minimum of 350 additional affordable units to be added to the Housing Commission's affordable housing portfolio.

On March 24, 2009, the Housing Authority approved updating the Housing Commission's Real Estate Acquisitions Policy 300.103, and delegated, under specific conditions, to the President and Chief Executive Officer and the Board of Commissioners the authority to acquire single-family and multifamily properties for the purpose of providing additional affordable housing. The Housing Commission was also delegated the power and authority to arrange for necessary lending for any acquisition approved by it. The Housing Authority can ask to review the action within seven (7) days of any action taken by the Housing Commission.

#### FISCAL CONSIDERATIONS:

Following is a summary of the terms of the proposed interim, revolving U.S. Bank Secured Line-of-Credit ("the Loan") to be used for the acquisition of proposed affordable housing projects located in the City of San Diego. Full detail on the terms is included in "Attachment 1."

Borrower: San Diego Housing Commission

Guarantor: None

Recourse to Borrower: None

Structure: An interim revolving line-of-credit in the amount of up to \$20,000,000, supported by two collateral categories:

1. \$15,000,000 in AAA rated government bonds pledged to Bank with a 90% advance rate,

2. 1<sup>st</sup> Trust Deed in favor of Bank on a multi-family apartment property with a value of roughly \$14,000,000 known as the Belden apartment project (or other multifamily residential property owned by the Housing Commission and approved by Bank in its sole and absolute discretion), with a 55% advance rate.

The final commitment amount and advance rate on the Belden property will be based on (a) Bank's appraisal of such property, and (b) Bank's determination that the Belden property has net operating income providing for a 1.30:1 debt service coverage ratio (DSCR), based upon a 30-year fully amortizing loan accruing interest at a 30-year amortization market refinance rate offered by FNMA, Freddie or US Bank.

Loan Fees:

Due at closing: \$50,000; Extension Option fee \$25,000

Loan Term:

Nine (9) months

Extension:

One three (3) month extension option, subject to (1) the Belden property maintaining a 1.30 DSCR based on actual most recent three months operating history of the property, plus minimum \$350/unit replacement reserves, and market refinance interest rate offered by FNMA, Freddie Mac or US Bank, (2) a minimum 90% occupancy of the Belden property for the same period, (3) no events of default, (4) Loan payments are current, (5) Bank's Loan remains secured by first priority pledge on Pledged Bonds and by 1<sup>st</sup> deed of trust on the Belden property, (6) the Belden property continuing to have clear title, and (7) a clear repayment strategy for the Loan satisfactory to Bank being in place.

Interest Rate:

30 day LIBOR + 300 basis points (Variable Rate). At the time of closing, the loan will be priced at a variable interest rate based on the applicable U.S. Bank 30 day LIBOR rate plus 300 basis points. This rate is subject to market fluctuation before and during the loan period. This loan rate will be floating during the loan period(s). For your reference purposes only, the current rate as of June 15, 2009 was 3.375% (including 3.00% spread). During term, Borrower's payments shall be interest only, payable monthly. The Borrower may purchase a 10% rate cap for the term, at its option, for an additional approximate fee of \$15,000.00.

Repayment:

Interest due monthly on the advanced portion of the loan proceeds, payable from the borrower. Outstanding loan amount is due in full upon maturity date of the loan.

Prepayment: Loan may be repaid at any time either as a partial pay down or in full. Belden property may be released early if loan is paid down to a level that can be supported solely by the Pledged Bonds held as collateral (in which case the maximum loan amount will be capped at the Pledged Bonds' advance rate). Loan may be prepaid without cost or penalty provided 30 days advance written notice is given to the Bank in writing.

Loan and Borrower  
Covenants:

Minimum Net Asset – Borrower to maintain Minimum Tangible Net Asset of \$200,000,000  
Liquidity Covenant – Borrower to maintain Minimum Liquidity of \$15,000,000  
Multi-Family property taken as collateral to maintain a 1.30 DSCR or higher,  
Bank to monitor value of the Bonds held as collateral monthly,  
Merrill Lynch to provide monthly statements  
Borrower to provide quarterly rent rolls and operating statements on property held as collateral  
Borrower to provide financial statements 180 days after fiscal year end

Other Conditions: The proposal is subject to satisfaction of all conditions specified in the letter, including but not limited to receipt of appraisals, engineering reports, hazardous materials reports and other third-party reports and due diligence confirming underwriting assumptions and conclusions, and based upon such due diligence.

Additional Conditions: Lender's Commitment is subject to the negotiation and execution of definitive credit, security and related loan documents (the "Loan Documents") satisfactory to Lender. The Loan Documents will embody the structure, pricing and other terms described in this letter. They will also include provisions viewed by Lender and its counsel as appropriate for this transaction and for transactions of this type. Any binding agreement is conditioned upon the Board of Commissioners of the San Diego Housing Commission, its counsel, and if required by law, the Housing Authority and the City of San Diego.

PREVIOUS ACTIONS:

The Housing Commission approved the submittal of an application to transition from the Federal public housing program to HUD November 17, 2006 (HCR06-85). The Housing Authority approved submittal of the application December 5, 2006 (HAR06-026). The Housing

Commission approved a plan for the development of additional affordable units and to enter into exclusive negotiations for necessary financing October 31, 2008 (HCR08-106). The Housing Authority approved the plan on November 18, 2008 (HAR08-041). On March 24, 2009, the Housing Authority approved updating the Housing Commission's Real Estate Acquisitions Policy 300.103, including a delegation to the Housing Commission of the power and authority to acquire lending necessary and appropriate for any acquisitions approved by it.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:

Meetings were held with all residents regarding the transition from the Federal public housing program; the application to HUD, approvals by HUD and plans to develop additional affordable units were reviewed and approved at public meetings before the Housing Commission and Housing Authority.


ENVIRONMENTAL REVIEW:

The proposed activity is not a project pursuant to the California Environmental Quality Act (CEQA); therefore, no CEQA environmental review is required. Because no federal funding is involved in this activity, processing under the National Environmental Policy Act is not required.


KEY STAKEHOLDERS & PROJECTED IMPACTS:

The Housing Commission is the owner of the real estate and cash-equivalent securities serving as collateral for the loan. U.S. Bank is to provide the proposed financing. The financing is expected to have a positive impact on the residents of the City of San Diego that are in need of affordable housing as it will increase the stock of affordable housing.

Submitted by,

  
D. Lawrence Clemens  
Senior Vice President

Approved by,

  
Carrol M. Vaughan  
Executive Vice President &  
Chief Operating Officer

Attachments: 1. U.S. Bank Executed Secured Line of Credit Term Sheet, dated June 24, 2009  
2. Financing Flowchart



U.S. Bank – Commercial Real Estate  
Community Lending Division  
4747 Executive Drive 3<sup>rd</sup> Floor  
San Diego, California 92121  
Phone: 858-334-0704  
Fax: 858-334-0798

June 16, 2009

D. Lawrence Clemens  
Senior Vice President  
San Diego Housing Commission  
1122 Broadway – 5<sup>th</sup> Floor  
San Diego, California 92101

Re: Secured Line of Credit for the San Diego Housing Commission to be used for the Acquisition of Additional Housing Units.

Dear Larry:

We are pleased to advise you that U.S. Bank National Association ("Lender") hereby offers a commitment to provide the requested financing upon the following terms and subject to the conditions outlined below.

To provide you with a credit facility, U.S. Bank proposes a line-of-credit loan up to \$20,000,000. The details are outlined as follows:

**BORROWER** San Diego Housing Commission

**GUARANTOR** None

**RECOURSE TO  
BORROWER** None

**PURPOSE** Proceeds of the secured Line-of-Credit (loan) are to be used solely for the acquisition by the borrower of proposed affordable housing projects located in San Diego, California.

**COMMITMENT  
AMOUNT** Up to \$20,000,000 revolving Line-of-Credit supported by two collateral categories.  
1. \$15,000,000 in AAA rated government bonds pledged to Bank

- (Pledged Bonds) with a 90% advance rate, and
2. 1<sup>st</sup> TD in favor of Bank on a multi-family apartment property with a value of roughly \$14,000,000 known as the Belden apartment project with a 55% advance rate,
  3. The aggregate principal amount of the Line of Credit which is outstanding at any one time may not exceed the sum of (a) 90% of the qualified Pledged bonds pledged to Bank, plus 55% of the appraised value of the Belden property as described below.

The final Loan amount available to be advanced on account of the Belden property will be based on (a) Bank's appraisal of such property, and (b) Bank's determination that the Belden property has net operating income, providing for a 1.30:1 debt service coverage ratio, based upon a 30-year fully amortizing loan (in the principal amount advanced on account of the Belden property) accruing interest at a 30 -year amortization market refinance rate offered by FNMA, Freddie, or U.S. Bank.

**LOAN FEE**

Closing Fee: \$50,000 payable at closing.  
Extension Option Fee: \$25,000

**LOAN TERM**

Nine (9) months

**EXTENSION**

One three (3) month extension option, subject to (1) the Belden property maintaining a 1.30 DSCR based on actual most recent three months operating history of the property, plus minimum \$350/unit replacement reserves, and market refinance interest rate offered by FNMA, Freddie Mac, or US Bank, (2) a minimum 90% occupancy of the Belden property for the same period, (3) no events of default, (4) Loan payments are current, (5) Bank's Loan remains secured by first priority pledge on Pledged Bonds and by 1st deed of trust on the Belden property, (6) the Belden property continuing to have clear title, and (7) a clear repayment strategy for the Loan satisfactory to Bank being in place.

Extension fee is \$25,000.

**INTEREST RATE**

30 day LIBOR + 300 bps (Variable Rate). At the time of closing, the loan will be priced at a variable interest rate based on the applicable U.S. Bank 30 day LIBOR rate plus 300 basis points. This rate is subject to market fluctuation before and during the loan period. This loan rate will be floating during the loan period(s). For your reference purposes only, the current rate as of June 15, 2009 was 3.375% (including 3.00% spread). During term, Borrower's payments shall be interest only, payable monthly. The Borrower may purchase at Loan closing a 10% rate cap for the term, at its option, for an additional approximate fee of \$15,000.00 (the actual fee will be based upon the U.S. Bank market rate for such a product at the time of purchase).

**DEBT SERVICE  
COVERAGE  
DEFINITION:**

The Debt Service Coverage Ratio or "DSCR" ratio shall be defined throughout this letter as the ratio of (a) the annualized NOI (based upon the most recent three month period as underwritten by Bank (and annualized) generated by tenants in place and paying rent plus rent subsidies) divided by (b) the annual debt service (calculated utilizing the Loan Amount multiplied by the loan constant calculated for a 30-year fully amortizing loan utilizing the market interest rate for a substantially similar product then quoted by Bank).

**REPAYMENT**

Interest due monthly on the advanced portion of the loan proceeds, payable from the borrower. Outstanding loan amount is due in full upon maturity date of the loan.

**PREPAYMENT**

Loan may be repaid at any time either as a partial pay down or in full. Belden property may be released early if loan is paid down to level that can be supported solely by the Pledged Bonds held as collateral (in which case the maximum loan amount will be capped at the Pledged Bonds' advance rate). Loan may be prepaid without cost or penalty provided thirty (30) days advance written notice is given to the Bank in writing

**SECURITY**

The Loan will be secured by a first priority lien on the following real and personal property ("Property") owned by Borrower:

(A) 7705-7795 Belden Street, San Diego, California, (or other multifamily residential property owned by the Commission and approved by Bank in its sole and absolute discretion); and

**INTEREST  
EARNED ON  
BONDS**

Interest earned on bonds held as collateral may be reinvestment at the direction of the Housing Commission provided the reinvested funds remain under control of the Bank and are retained as collateral for the Loan. Upon full repayment of the Loan and payment of all Bank's third party expenses, reinvested funds and interest earned on the bonds shall be returned to the Housing Commission.

**APPRAISAL**

Prior to Loan closing, Lender shall have ordered and received, at Borrower's expense, an appraisal of the real property securing the Loan and shall have determined that the value of that real property, based on the Restricted Income Approach-Stabilized, is not less than an amount which results in a loan to value for the loan of not more than 55% during the loan period. Said appraisal shall be satisfactory to Lender and in compliance with all regulatory requirements.

If such an appraisal is not received at loan closing, Borrower may still draw loan proceeds based on the AAA rate Pledged Bonds advance rate of 90% of market value or par whichever is less (but not more than



\$13,500,000), and the Loan will be capped at that maximum until the reviewed and approved appraisal of the Belden property is received, at which time the maximum Loan amount may be increased (but not to an amount in excess of \$20,000,000) based on that appraised value and a 55% loan to value advance rate.

The Pledged Bonds shall at all times consist of not less than \$15MM in Fannie Mae Bonds, FHLB bonds and FDIC TLGP Guaranteed Bonds held at Merrill Lynch (all AAA rated bonds) as collateral security for the Loan. The advance rate on the Pledged Bonds will be 90% of market value or par value- whichever is less. Each of the Pledged Bonds shall have a maturity of less than 5 years. The Pledged Bonds will be held in a separate account at Merrill Lynch under the vesting "U.S. Bank National Association, as pledgee of San Diego Housing Commission". Bank will require its standard control agreement be executed by Merrill Lynch and the Commission. Upon full repayment of the Loan, the control agreement shall be terminated and all of the Pledged Bonds shall be released in their entirety to the Housing Commission. All Pledged Bonds must at all times be rated AAA by Standard and Poor's and meet the other qualifications described above. The Commission will be able to propose substitute bonds meeting all of Bank's requirements (one of the three identified types of bonds, all rated AAA and all having the required maturities, etc.). So long as Bank receives all written evidence required by Bank counsel to the effect that the proposed substitute bonds meet all of the Bank's requirements, that they have an advance value equal to or greater than the Pledged Bonds being replaced and that Bank has a first priority perfected security interest in the new substitute bonds, Bank will consent to such substitution. In no event shall Bank consent to any proposed substitution which would result in the Bank having a security interest in Pledged Bonds having an advance rate value lower than it did prior to such substitution. Also, if any Pledged Bond's rating ever falls below AAA, then Borrower shall either immediately (and in any event within five (5) business days) provide substitute Pledged Bonds meeting all of Bank's requirements and having an equivalent advance rate value or prepay the Loan to the maximum principal permitted Loan amount calculated without giving value to such downgraded bonds. Also, if the portion of the Loan advanced on account of the Pledged Bonds ever exceeds the maximum permitted amount which may be advanced on account of the Pledged Bonds using the advance rate described above (because of a change in the market value of the such bonds or otherwise), then Borrower shall immediately (and in any event within 5 business days) either prepay the Loan to reduce it to the maximum permitted amount or provide additional Pledged Bonds, or substitute Pledged Bonds, sufficient to satisfy the advance rate requirements with respect to the Pledged Bonds and otherwise meeting the requirements of this letter. Compliance with the advance rate requirements will be monitored monthly.

**APPRAISAL  
REVIEW**

To be completed by U.S. Bank Real Estate Services Technical Group

upon receipt of the MAI appraisal described above.

**LOAN AND  
BORROWER  
COVENANTS:**

Minimum Net Assets – Borrower to maintain Minimum Tangible Net Assets of \$200,000,000  
Liquidity Covenant – Borrower to maintain Minimum Liquidity of \$15,000,000  
Multi-Family property taken as collateral to maintain a 1.30 DSCR or higher at all times,  
Bank to monitor value of the Bonds held as collateral monthly, Merrill Lynch to provide monthly statements  
Borrower to provide quarterly rent rolls and operating statements on real property held as collateral  
Borrower to provide audited financial statements 180 days after fiscal year end

**CANCELLATION;  
CHANGE OF  
TERMS**

Lender's commitment is further subject to the condition that there shall not have occurred: (i) any material adverse change in the business, operations, or financial condition of Borrower, any of its subsidiaries or any guarantors of this facility; (ii) any material diminution of value of the collateral proposed for the loan, in each case as determined by Lender in comparison to June 15, 2009; (iii) discovery of any information which Lender reasonably determines has a negative impact on the proposed transaction; (iv) discovery of any adverse environmental conditions which cannot be adequately resolved to Lender's reasonable satisfaction; (v) there is any change in the management of Borrower or in the Property or any security for the Loan; (vi) any representation or warranty shall prove to have been false when made by Borrower; or (vii) Borrower fails to disclose any material facts, execute the loan documents or comply with any terms of this Commitment. In any such circumstance, Lender may at its option change the terms of, add new terms and conditions, or cancel this Commitment.

**GOVERNING  
LAW**

Except to the extent federal law provides greater rights and remedies to Lender and except as otherwise required by state laws governing real property interests, the transactions contemplated hereunder shall be governed by the laws of the State of California.

**OTHER  
CONDITIONS**

This letter is being issued subject to the satisfaction of all conditions specified in this letter, including, but not limited to receipt of appraisals, engineering reports, hazardous materials reports, and other third-party reports and due diligence confirming our underwriting assumptions and conclusions:

1. Minimum debt service coverage ratio at closing to be 1.30:1
2. Receipt, review and approval by Bank of an MAI and State Certified appraisal with the concluded value, restricted rents income approach, "as is" or stabilized value whichever is less providing for not more than a 55% advance rate at a maximum loan amount of \$20MM.
3. Review and approval by Bank of the Phase I environmental site assessment and Phase II report (if applicable) by Lender's Real Estate Technical Services Department and Environmental consultant providing Lender with a Reliance Letter.
4. Bank's receipt, review, and approval of ALTA Survey with all easements plotted.
5. Ongoing Project Monitoring Compliance: a) borrower will provide Lender operating statements and rent rolls commencing at 1 month after close on a quarterly basis and continuing on a quarterly basis for the term of the loan. Thereafter, reports are required on a quarterly basis; b) audited financial statement (due 180-days after year-end reporting period); c) at least annually, evidence that Property and Liability insurance is adequate and current; d) semi-annual verification that all real estate taxes/direct assessments have been paid; and/or that the Borrower is exempt from the payment of such taxes, as a public agency; and e) annual statement of compliance w IRS regulation (if applicable).
6. General liability insurance policy in the amount of not less than \$2,000,000 with U.S. Bank, NA named as additional insured. A prepaid policy or policies of fire insurance with extended coverage, flood insurance (if required), earthquake insurance (if required) and such other insurance as Bank requires, in such amounts, in such form, and with such companies as are acceptable to Bank, each with mortgagee clause in favor of Bank.
7. All documents, instruments and agreements required to create evidence and perfect Bank's first priority security interest in the Pledged Bonds.

#### **ADDITIONAL CONDITIONS**

Lender's Commitment is subject to the negotiation and execution and delivery of definitive credit, security and related loan documents (the "Loan Documents") satisfactory to Lender. The Loan Documents will embody the structure, pricing and other terms described in this letter. They will also include provisions viewed by Lender and its counsel as appropriate for this transaction and for transactions of this type. Accordingly, it should be recognized that this letter is indicative, but not exhaustive, as to the terms and conditions which shall govern this facility. Neither Lender nor Borrower shall be liable to the other on account of a failure to reach agreement regarding such other provisions or for failing to obtain any approval required hereunder.

Any binding agreement shall be further conditioned upon approval of the Board of Commissioners of the San Diego Housing Commission, its

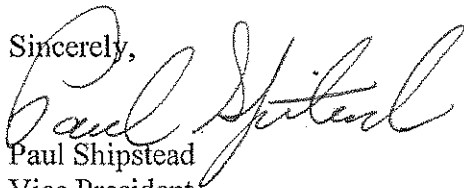
counsel, and if required by law, the Housing Authority and the City of San Diego.

**EXPIRATION**

Unless Lender grants a written extension (in its sole and absolute discretion), this Commitment will expire unless it is accepted in writing as set forth below on or before July 8, 2009 and the closing occurs on or before September 31, 2009.

Please indicate your acceptance by signing the enclosed acknowledgment copy of this letter, obtaining the signatures of the borrower and returning the signed copy. We look forward to working with you and your staff to complete this transaction.

Sincerely,



Paul Shipstead

Vice President

858-334-0704

858-334-0798 (Fax)

**ACCEPTANCE**

THIS COMMITMENT APPROVED AND ACCEPTED THIS \_\_\_\_\_ DAY OF \_\_\_\_\_, 2009. , subject to the subsequent approval(s) of the San Diego Housing Commission Board of Commissioners and/or the Board of Commissioners of the Housing Authority of the City of San Diego, if and as required.

**BORROWER:**

San Diego Housing Commission

BY: \_\_\_\_\_  
San Diego Housing Commission  
Name: Rick Gentry  
Title: President and Chief Executive Officer

**NOTICE TO BORROWER(S)**

**TAXPAYER(S) I.D. NUMBER**

Under the Federal income tax law, you are subject to certain penalties if you do not provide us with your correct social security number or other taxpayer identification number. Please read this notice carefully.

The Tax Reform Act of 1984 requires lenders to report interest received from an individual on a loan secured by real estate if the total interest received in the loan during the year is \$600 or more. The interest received and the borrower's taxpayer identification number must be reported to the Internal Revenue Service. This will allow the Internal Revenue Service to verify deductions for interest paid on loans secured by real estate.

You (as a borrower) are required to provide your taxpayer identification number to us (as a lender). If you are an individual, your taxpayer identification number is your social security number. You may be subject to a penalty imposed by the Internal Revenue Service if you do not provide us with your correct taxpayer identification number.

Please supply your taxpayer identification number and the other information requested on the form on the bottom of this notice.

Taxpayer Identification No.

\_\_\_\_\_

Telephone Number

\_\_\_\_\_

IN ORDER TO FACILITATE THE PROCESSING OF YOUR LOAN, PLEASE INDICATE WHICH TITLE AND ESCROW COMPANIES YOU WANT TO USE ON THIS TRANSACTION:

<b>Title Company</b>	<b>Escrow Company</b>
<b>Address:</b>	<b>Address:</b>
<b>Phone No.:</b>	<b>Phone No.:</b>
<b>Title Officer</b>	<b>Escrow Agt:</b>

## GENERAL TERMS AND CONDITIONS

### CONDITIONS PRECEDENT

Lender's Commitment to make the Loan is contingent on satisfaction of the following requirements concurrently with or prior to the Loan closing:

1. Receipt by Lender of the following:

**Authority.** Satisfactory evidence of the authority of Borrower to enter into the transactions contemplated by this Commitment. Lender may require an opinion of Borrower's independent counsel that Borrower is validly organized and empowered to enter into the transactions which are the subject of this Commitment.

**Documents.** Such documents, executed by such persons as Lender requires, which may include, without limitation, loan agreements, notes, deeds of trust, security agreements, UCC financing statements, guaranties, general and/or specific assignments of leases and rents, borrowing authorizations, and subordination, attornment and estoppel agreements.

**Title Insurance.** A commitment to issue a 1992 ALTA mortgagee's extended coverage title insurance policy, including all endorsements required by Lender, in the full amount of the Loan, and issued by a company acceptable to Lender. Lender's acceptance of said policy shall be subject to its approval of the following items: (i) title vesting, (ii) legal description (which must describe an insurable legal lot), (iii) Lender's lien priority upon recording Lender's security instruments, and (iv) encumbrances, easements, covenants, conditions, restrictions, or exceptions which must be accepted by Lender.

**Insurance.** A prepaid policy or policies of all-risk insurance with extended coverage, flood insurance (if required), comprehensive general liability insurance, and such other insurance as Lender requires, in such amounts, in such form and with such companies as are acceptable to Lender, each with a mortgagee clause in favor of Lender.

**Governmental Requirements.** Satisfactory evidence that the Property complies with all applicable zoning, building, use and other governmental requirements and that all licenses, permits and agreements necessary for the lawful use and operation of the Property have been obtained. Required evidence may include, without limitation, copies of building permits and/or certificates of occupancy.

**Survey.** If required by Lender or title insurer, two copies of an acceptable survey prepared and certified by a registered land surveyor, which locates existing improvements, easements and encroachments.

**Financial Information.** Such financial statements, credit reports, tax returns, and other financial information, regarding Borrower and the Property as Lender requires.

**Environmental.** A satisfactory Phase One Environmental Site Assessment regarding regulated or hazardous substances, and a Certificate and Indemnity regarding hazardous substances executed by Borrower and the owner of the Property (if different). Lender

may also require more extensive environmental testing by a qualified professional to determine the acceptability of the Property as collateral.

**Legal Opinion.** The opinion of counsel reasonably satisfactory to Lender covering such matters as Lender requires, which may include without limitation an opinion that (1) Borrower is duly organized and existing and in good standing in its state of organization and has been duly authorized to execute and deliver the loan documents, (2) Borrower is qualified to do business in all states where such qualification is required for the Loan, (3) the loan documents when executed and delivered will be the valid and binding obligations of Borrower and Guarantor, enforceable in accordance with their terms except as the same may be limited by bankruptcy, insolvency, reorganization, or similar laws or general principles of equity affecting creditors' rights generally, (4) the Loan complies with all applicable usury laws, and (5) all consents have been obtained which are required from any governmental authority in connection with the execution, delivery, and performance of the loan documents, (6) such other matters as Lender may reasonably require, (7) the Property and its use by Borrower comply with all applicable zoning, building, land use, environmental and other governmental requirements, including without limitation requirements relating to wetlands.

**Fees & Deposits.** All required loan fees and deposits shall have been paid.

2. The Property shall be in good condition, and no part of the Property shall have been damaged by fire or other casualty or be the subject of any eminent domain or condemnation proceedings.
3. All representations and warranties included herein shall be true and correct as of the date of the Loan closing.
4. Borrower, the owner of the Property, any person providing any security for the Loan and any other relevant person shall satisfy such requirements, provide such information and execute such documents as Lender reasonably requires.

## **BORROWER DEPOSITS**

Prior to closing, Lender may require Borrower to make cash deposit(s) in amounts which Lender, in its sole discretion, determines to be equal to the difference between (1) the amount required to accomplish the purpose of the Loan and to satisfy all conditions of the Loan and (2) the amount of the Loan.

## **DEFAULT INTEREST RATE; LATE CHARGE**

Each Promissory Note shall include a default interest rate which will be 5% over the rate contained in each Promissory Note. If a payment is 15 days or more past due, Borrower will be charged a late charge of 5% of the delinquent payment.

## **EXPENSES**

Borrower shall pay all fees and costs of negotiation, preparation and administration of the Loan and loan documents, whether or not the Loan Documents are executed and whether or not the loans are made available under the Loan Documents. Such fees and costs may include charges for services performed by Lender's employees or other persons and include but are not limited to costs of title insurance, surveys, environmental assessments, appraisals, appraisal review fees, escrow charges, taxes, attorney fees, inspection fees, filing and recording fees, and the costs incurred to satisfy all terms of this Commitment. This obligation survives the termination or expiration of the Commitment.

## **FUTURE SALE OR ENCUMBRANCE**

Lender may, at Lender's option, declare the entire principal balance of the Loan, together with interest, immediately due and payable if, without Lender's prior written consent (1) all or any part of the Property or any interest therein is sold, leased (except that the Belden project may be leased to tenants in the normal course of business, it being acknowledged that the real estate is a rental property that will be leased to eligible tenants) transferred, further encumbered or alienated or (2) there is any change in ownership of Borrower.

## **SECONDARY FINANCING**

There shall be no financing junior on the Belden property without Lender's reasonable prior written consent.

## **ASSIGNMENT**

Lender may sell, assign or participate all or any portion of its interest in this Commitment and the Loan.

## **FINANCIAL INFORMATION**

From time to time, upon request by Lender, Borrower and Guarantor shall provide such information regarding the Property or parties as Lender requires.

## **REPRESENTATIONS AND WARRANTIES**

By accepting this Commitment, Borrower hereby makes the following representations and warranties. By signing the promissory note and deed of trust, Borrower shall be deemed to make the following representations and warranties, as of the date of execution thereof.

1. Borrower is duly organized and in good standing in its state of organization and is qualified to do business in all states where such qualification is required for the Loan.
2. Except as previously disclosed to Lender, there are no actions, proceedings, investigations or claims pending against or, to Borrower's knowledge, threatened against or affecting Borrower, which could materially adversely affect the Property or any such person's ability to perform its loan obligations.



3. Borrower's execution, delivery and performance of this commitment, the Loan and the loan documents have been duly authorized, do not violate its articles of incorporation, partnership agreement, or any other organization documents, or any law, regulation, rule or order binding on Borrower and do not violate the provisions of or constitute a default under any indenture, loan agreement or other agreement or instrument to which Borrower is a party or by which it may be bound or affected.

4. The most recent financial statements furnished by Borrower to Lender fairly present such person's financial condition as of the date thereof. Since that date there has been no material adverse change in Borrower's financial condition.

5. Borrower and the Property are in compliance with all applicable governmental laws, regulations and ordinances.

6. Borrower is not in breach of or in default under any agreement to which it is a party or which is binding on it or any of its assets.

### **ESCROW**

Lender may require that the Loan be closed with an escrow agent acceptable to Lender.

### **REAPPRAISAL**

If at any time Lender determines that a reappraisal of the Property is necessary, or if a reappraisal is required by any regulatory authority, Lender shall have the right to cause the Property to be reappraised and the appraisal reviewed, both at Borrower's expense; provided, however, that, so long as no default has occurred, Borrower shall not be required to reimburse Bank for costs of more than one appraisal that is not required by law, rule or regulation

### **NO THIRD PARTY BENEFICIARIES**

This Commitment is solely for the benefit of Borrower and Lender and Lender's successors and assigns and shall not inure to the benefit of, or be relied upon by, any other person or entity.

### **WAIVER OF COMMITMENT CONDITIONS**

Lender in its sole discretion may waive or modify, as provided herein, certain conditions or requirements of this commitment; however, no waiver or modification of any such condition or requirement shall be deemed or construed to be a waiver of any other provision of this commitment. No waiver shall be effective unless included in a writing signed by Lender.

### **ATTORNEY FEES**

If litigation is commenced to interpret or enforce any provision of this commitment, the prevailing party shall be entitled to recover all costs and expenses thereof, including without limitation, reasonable attorney fees in any appellate proceeding, proceeding under the bankruptcy code or receivership.

## **DOCUMENTS SATISFACTORY TO LENDER**

All information, documents and instruments required to be executed, delivered or provided to Lender shall be in form and substance satisfactory to Lender.

## **PRIOR AGREEMENTS**

This Commitment supersedes all prior oral or written negotiations, understandings, representations and agreements between the parties and may not be changed without the written agreement of Borrower and Lender.

SAN DIEGO HOUSING COMMISSION  
RESOLUTION NO. \_\_\_\_\_  
ADOPTED ON JUNE 29, 2009

A RESOLUTION: (1) APPROVING THE \$20,000,000 INTERIM REVOLVING LINE-OF-CREDIT FROM U.S. BANK TO THE SAN DIEGO HOUSING COMMISSION ON TERMS AND CONDITIONS APPROVED BY THE CHIEF EXECUTIVE OFFICER (CEO) AND AS APPROVED BY GENERAL COUNSEL; (2) AUTHORIZING THE CEO, OR DESIGNEE, TO EXECUTE ANY AND ALL DOCUMENTS AND TO PERFORM ANY AND ALL ACTS REASONABLY NECESSARY TO ACQUIRE AND TO DOCUMENT AND MEMORIALIZE THE LINE-OF-CREDIT ON TERMS AND CONDITIONS APPROVED BY GENERAL COUNSEL; (3) AUTHORIZING THE CEO, OR DESIGNEE, TO EXPEND SUCH FUNDS AS ARE NECESSARY TO ACQUIRE THE LINE-OF-CREDIT, INCLUDING THE EXPENDITURE OF FUNDS FOR THIRD PARTY REPORTS, LOAN APPLICATION FEES, AND SUCH OTHER AND FURTHER EXPENSES AS MAY BE REASONABLY NECESSARY TO ACQUIRE THE INTERIM LINE OF CREDIT.

WHEREAS, the Housing Commission approved the submittal of an application to transition from the Federal public housing program to the U.S. Department of Housing and Urban Development (HUD) November 17, 2006 (HCR06-85); and

WHEREAS, the Housing Authority approved submittal of the application December 5, 2006 (HAR06-026); and

WHEREAS, the Housing Commission submitted an application to transition from the Federal public housing program to HUD in March 2007 to “dispose” of the public housing stock (excepting thirty-six units that were in acquisition stage resulting from a taking of units by the San Diego Unified School District), and

WHEREAS, said application included the transfer of title to the units to the Housing Commission and new Housing Choice Vouchers made available to the Housing Commission, and the Housing Commission agreed to leverage the equity in the former public housing units to create a minimum of 350 additional affordable units; and

WHEREAS, the 1,366 units that were the subject of the application would continue to be rented to low income households at rent levels affordable to either 50% AMI, 80% AMI or market rate rents, whichever is less; and

WHEREAS, on October 31, 2008, the Housing Commission approved a plan for the development of additional affordable units and to enter into exclusive negotiations for necessary financing (HCR08-106); and

WHEREAS, the Housing Authority approved the plan on November 18, 2008 (HAR08-041); and,

WHEREAS, on March 24, 2009, the Housing Authority approved updating the Housing Commission's Real Estate Acquisitions Policy 300.103, and delegated, under specific conditions, to the President and Chief Executive Officer and the Board of Commissioners the authority to acquire single-family and multifamily properties for the purpose of providing additional affordable housing including the power and authority to acquire lending necessary and appropriate for any acquisition approved by it under the new policy; and

WHEREAS, under the new policy the Housing Authority could ask to review the action within seven (7) days of the Housing Commission's approval; and

WHEREAS, the Housing Commission has negotiated and proposed for approval a \$20,000,000 interim revolving line-of-credit from U.S. Bank to the San Diego Housing Commission to serve as short-term interim acquisition financing for affordable housing units until such time that the permanent financing method is approved and in place in accordance with the provisions of Acquisition Policy 300.103; NOW, THEREFORE,

BE IT RESOLVED by the San Diego Housing Commission Board of Commissioners as follows:

1. Housing Commission hereby approves the acquisition of the \$20,000,000 interim revolving line-of-credit from U.S. Bank to the San Diego Housing Commission, on terms and conditions approved by the Chief Executive Officer (CEO) and as referenced within report HCR09-059, approved June 29, 2009, and as approved by General Counsel; and
2. The CEO, or designee, is authorized to execute any and all documents and to perform any and all acts reasonably necessary to acquire and to document and memorialize the line-of-credit, on terms and conditions approved by General Counsel, and as referenced the report; and
3. Housing Commission Board authorizes the CEO, or designee, to expend such funds as are necessary to acquire the line of credit, including the expenditure of funds for third party reports, loan application fees, and such other and further expenses as may be reasonably necessary to acquire the interim line of credit; and
4. Authorizes the CEO, or designee to execute this resolution approving the actions referenced within the report.

I hereby certify that the foregoing is a full, true and correct copy of Resolution Number \_\_\_\_, passed and adopted by the San Diego Housing Commission on June 29, 2009.

By: \_\_\_\_\_  
Richard C. Gentry, President and CEO  
San Diego Housing Commission

Approved as to Form:  
Christensen & Spath  
By: \_\_\_\_\_  
General Counsel  
San Diego Housing Commission

# San Diego Housing Commission

## Affordable Housing Portfolio Financing Strategy

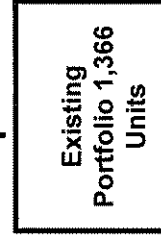
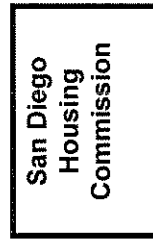
# Interim Phase

US Bank Short Term Loan

# INTERIM PHASE

Current Status: Unleveraged  
Portfolio is Generating Monthly  
Net Operating Income

Funding Est. 9/1/2009  
Maximum 9 Month Term to 5/31/2010



### Legend

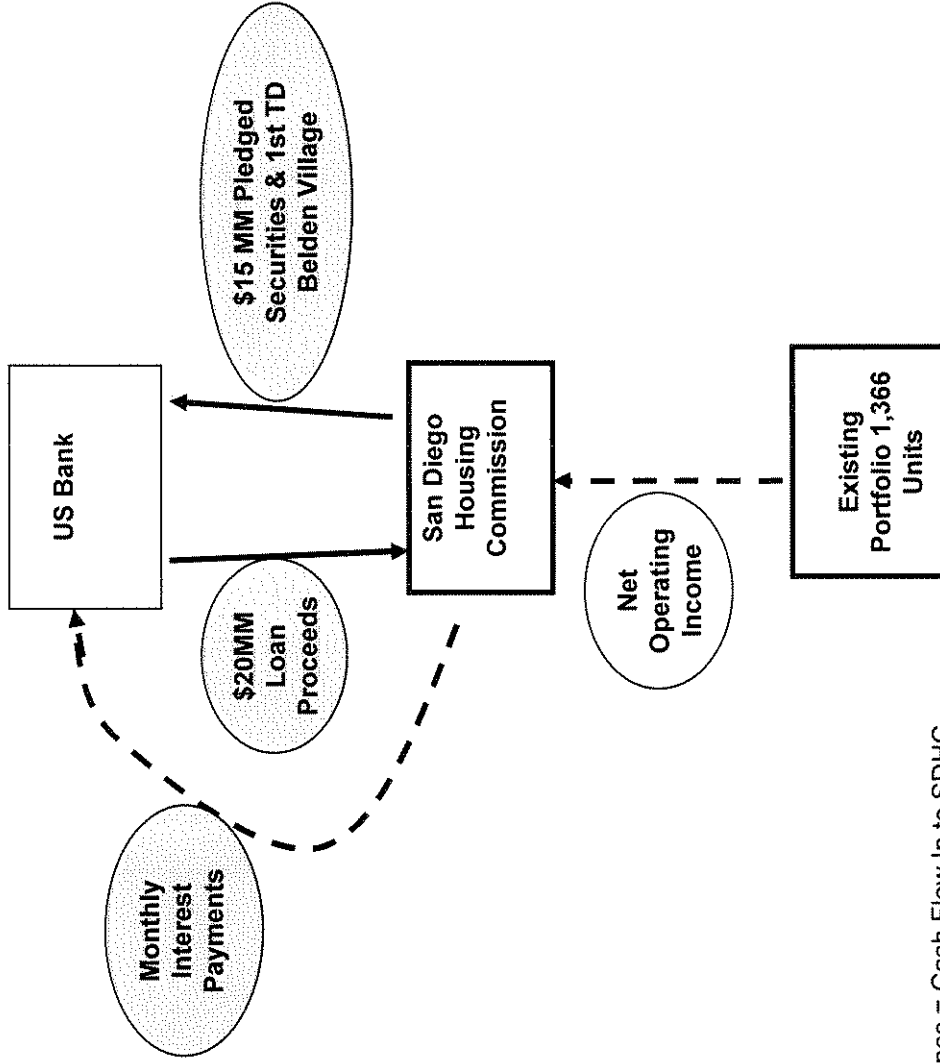
- Dashed Green Lines = Cash Flow In to SDHC
- Dashed Red Lines = Cash Flow Out from SDHC
- Solid Green Lines = Loan Proceeds In to SDHC
- Solid Red Lines = Loan Proceeds / Purchase Price Payments Out from SDHC
- Solid Blue Lines = Security For Loans / Grant Deeds For Purchases
- Brown Boxes and Font = Properties



**INTERIM PHASE**

Borrow Interim Loan  
From US Bank

Funding Est. 9/1/2009  
Maximum 9 Month Term to 5/31/2010

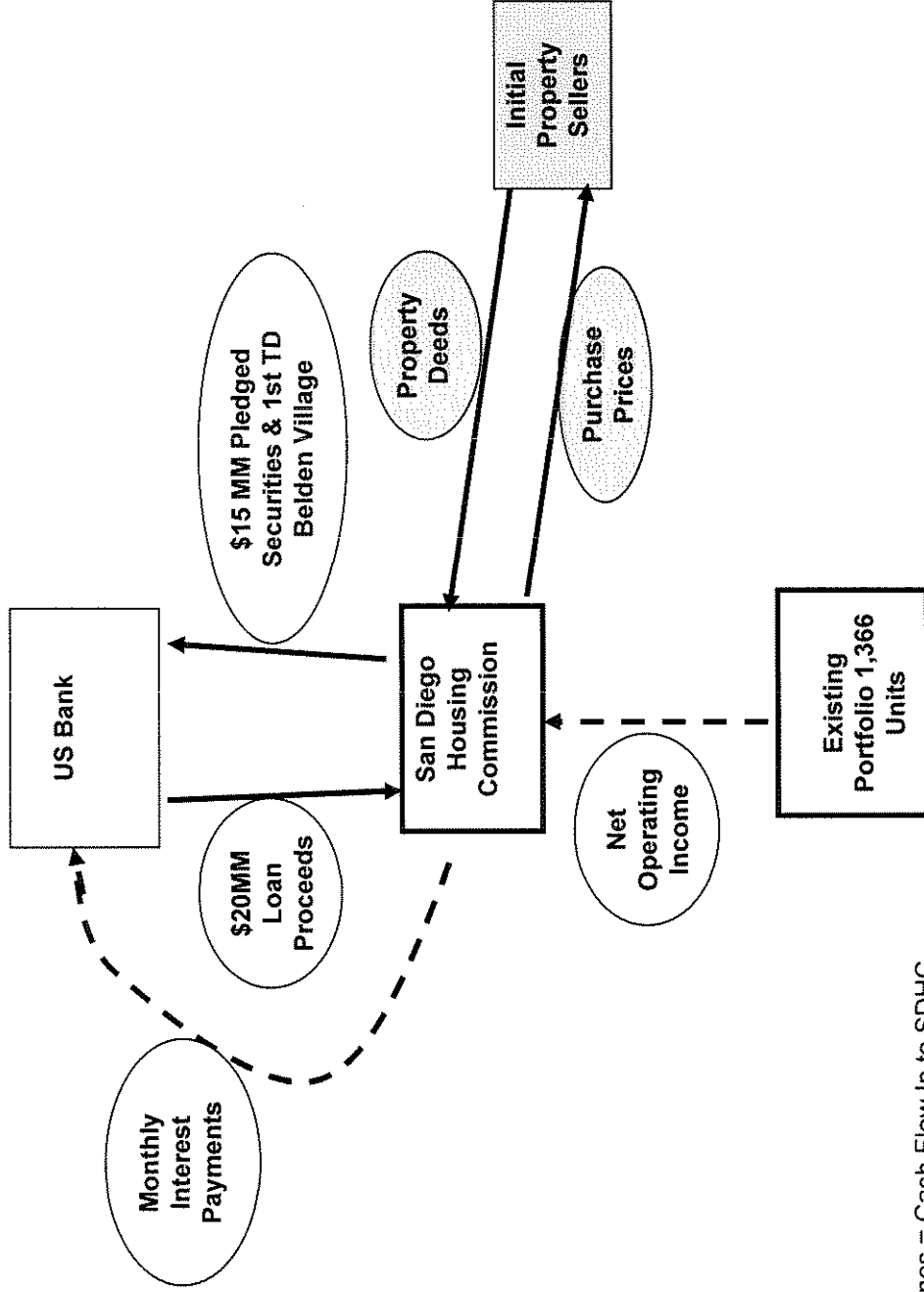


- Legend
- Dashed Green Lines = Cash Flow In to SDHC
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  - Solid Blue Lines = Security For Loans / Grant Deeds For Purchases
  - Brown Boxes and Font = Properties

**INTERIM PHASE**

Acquire Initial Portfolio Additions

Funding Est. 9/1/2009  
Maximum 9 Month Term to 5/31/2010

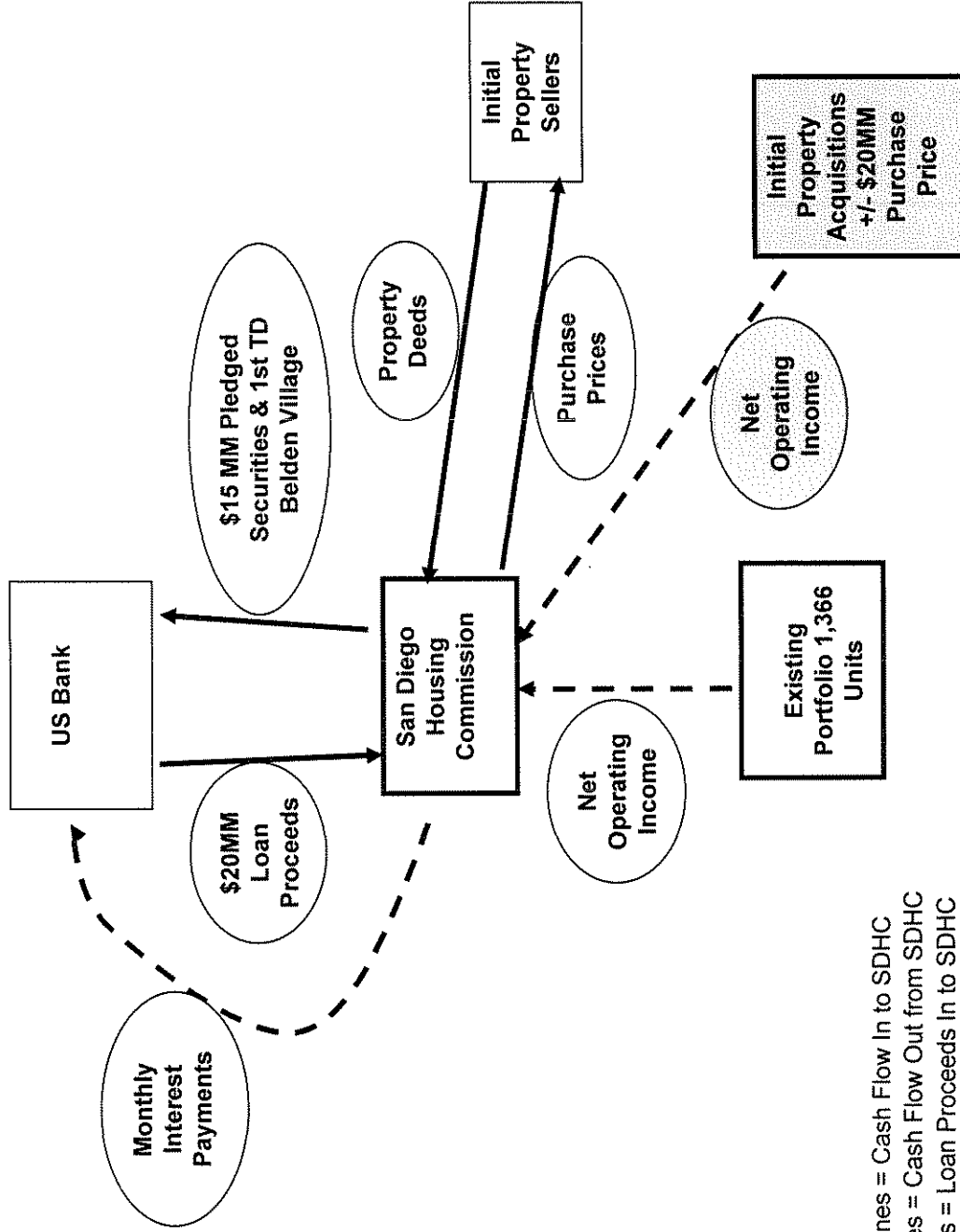


- Legend**
- Dashed Green Lines = Cash Flow In to SDHC
  - Dashed Red Lines = Cash Flow Out from SDHC
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# INTERIM PHASE

New Acquisitions Generate  
Net Operating Income to SDHC

Funding Est. 9/1/2009  
Maximum 9 Month Term to 5/31/2010



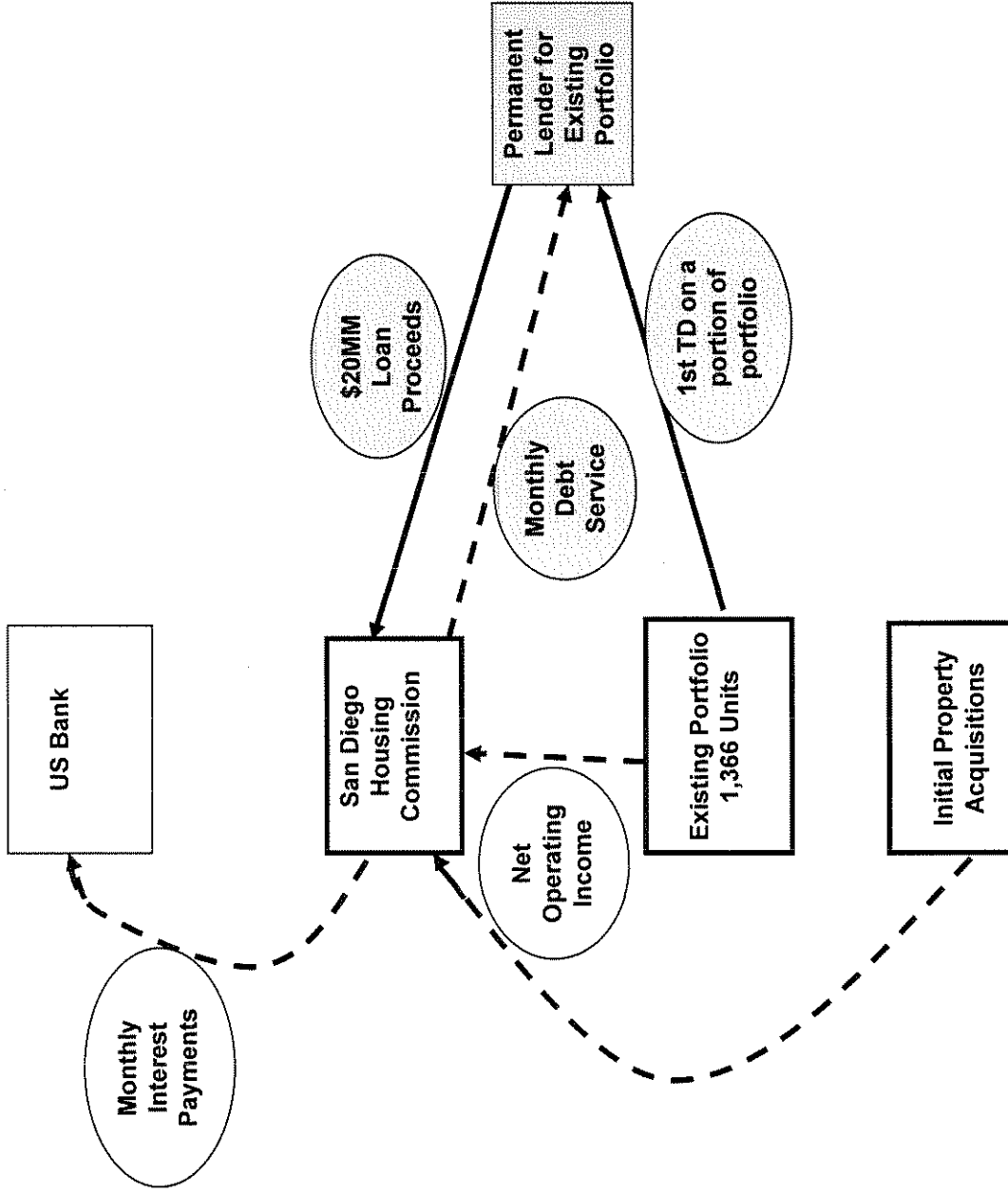
**Legend**

- Dashed Green Lines = Cash Flow In to SDHC
- Dashed Red Lines = Cash Flow Out from SDHC
- Solid Green Lines = Loan Proceeds In to SDHC
- Solid Red Lines = Loan Proceeds / Purchase Price Payments Out from SDHC
- Solid Blue Lines = Security For Loans / Grant Deeds For Purchases
- Brown Boxes and Font = Properties

# REPAY INTERIM LOAN

Permanent Lender Funds  
First Installment of Financing  
On Existing Portfolio

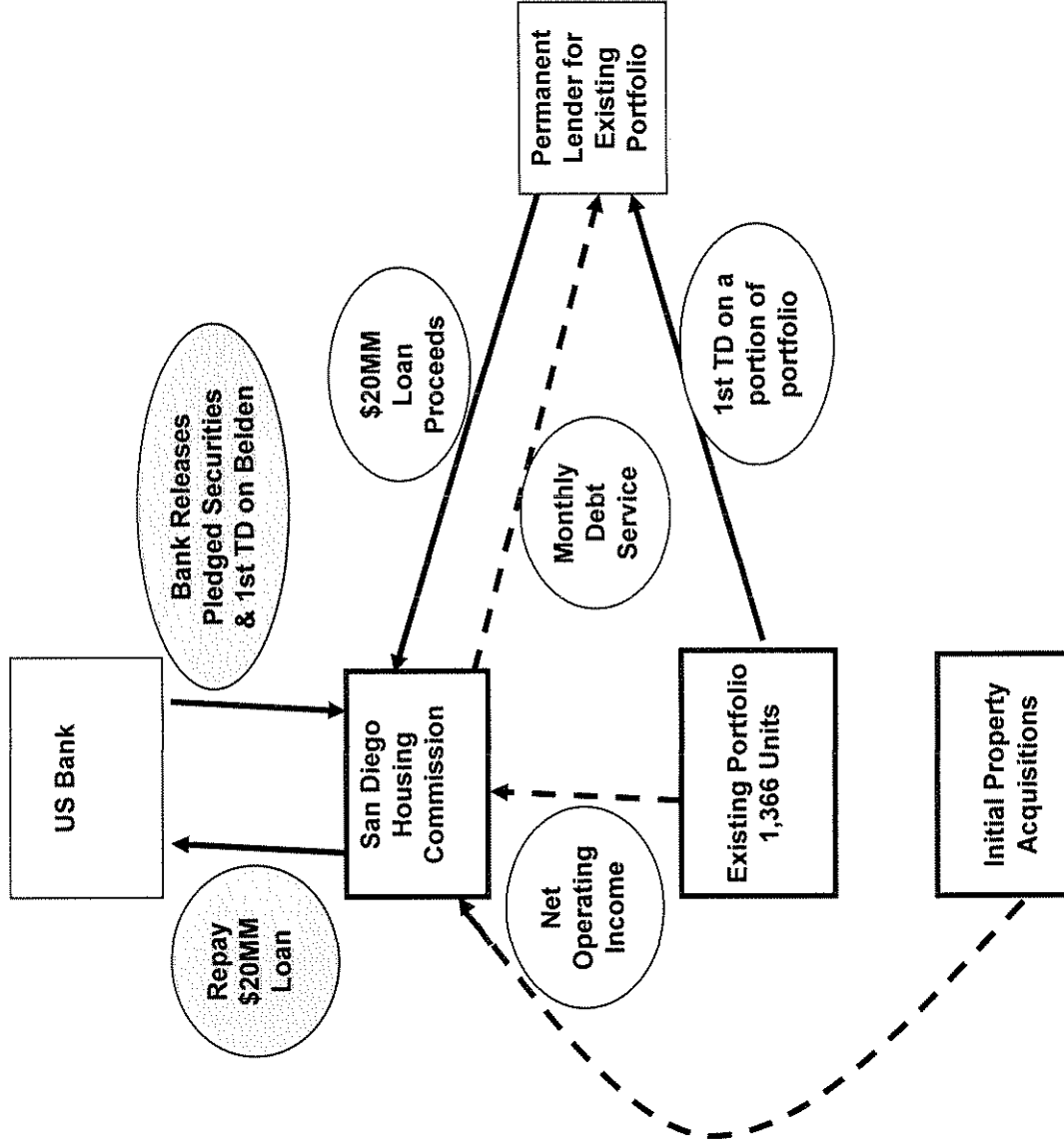
Funding Est. 11/1/2009  
Not Later Than 1Q2010



# REPAY INTERIM LOAN

Proceeds of Permanent Financing  
Are Used to Repay US Bank Loan

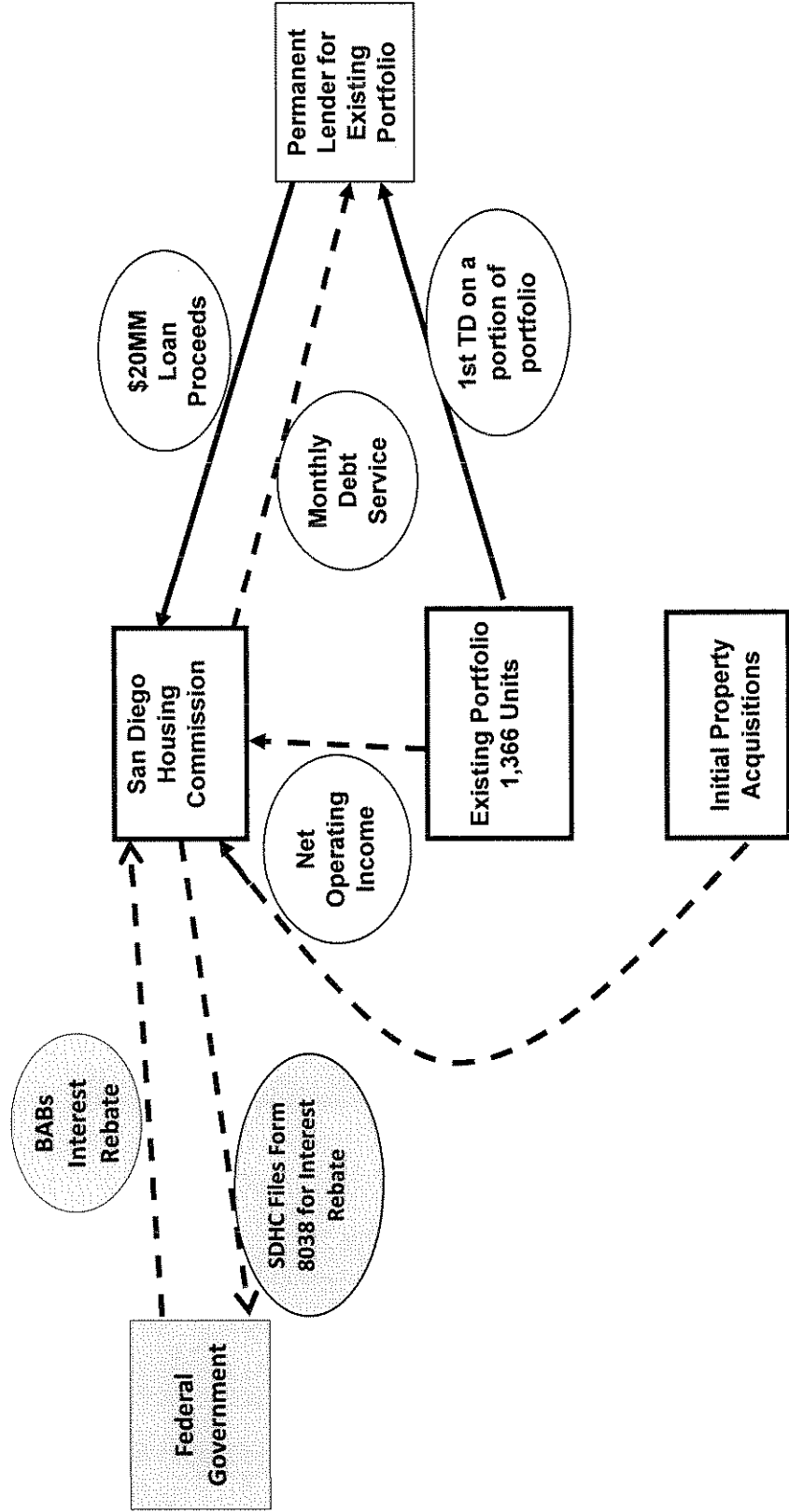
Funding Est. 11/1/2009  
Not Later Than 1Q2010



# REPAY INTERIM LOAN

SDHC Files Form 8038 to Receive  
 BABs Interest Rebate for 35% of  
 Interest Paid On Debt Used to  
 Acquire Qualifying Assets

Funding Est. 11/1/2009  
 Not Later Than 1Q2010

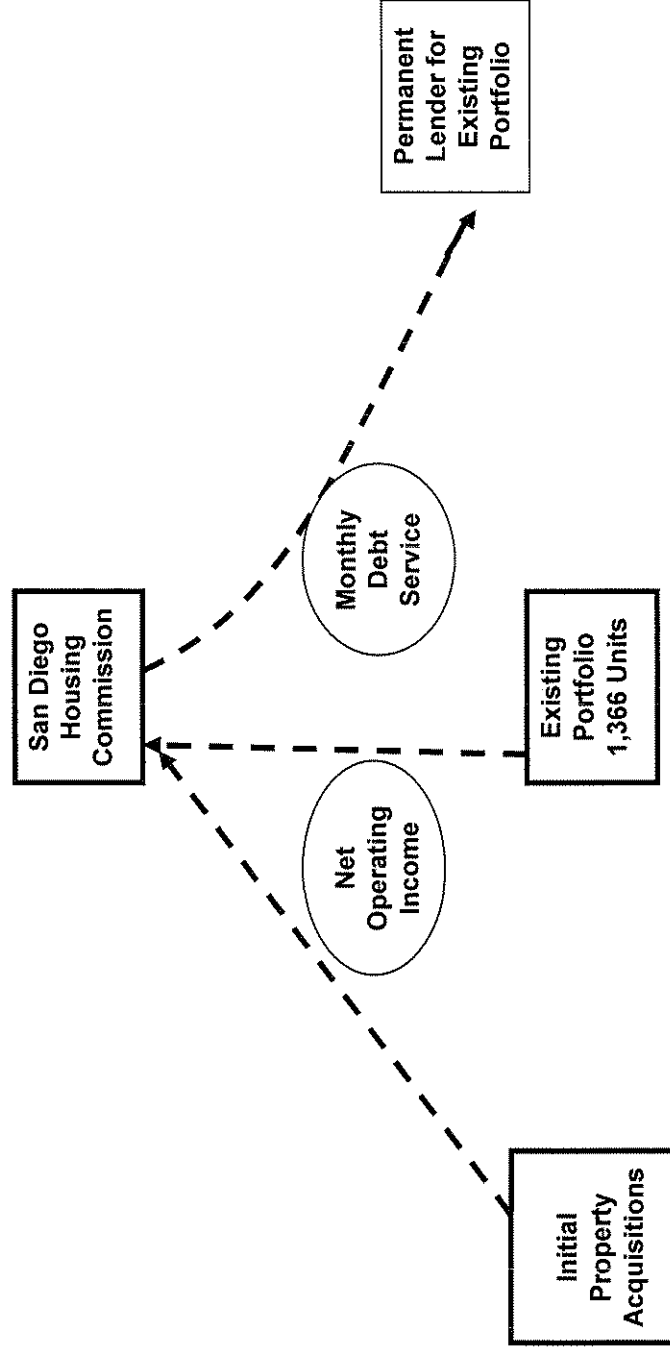


# Second Phase of Acquisitions

## SECOND PHASE OF ACQUISITIONS

Status After Repayment  
Of US Bank Interim Loan

Funding Beginning 4Q2009

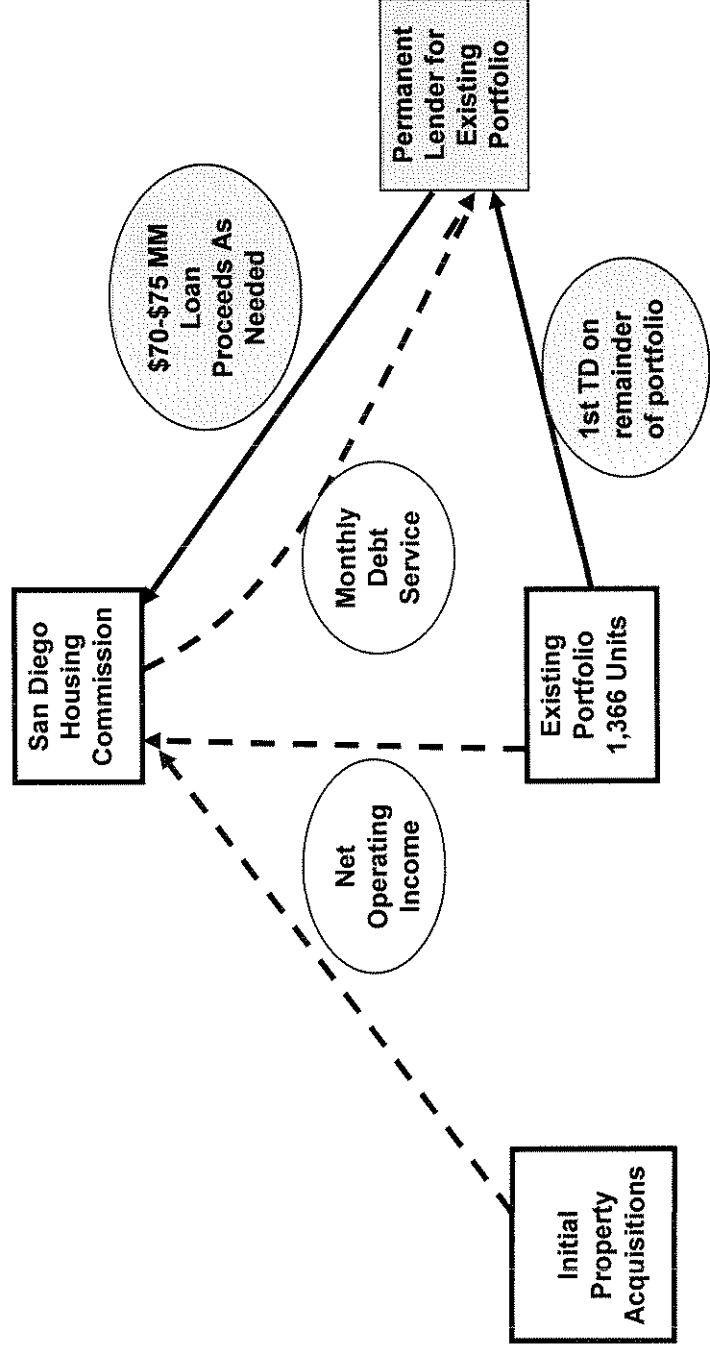




# SECOND PHASE OF ACQUISITIONS

Funding Beginning 4Q2009

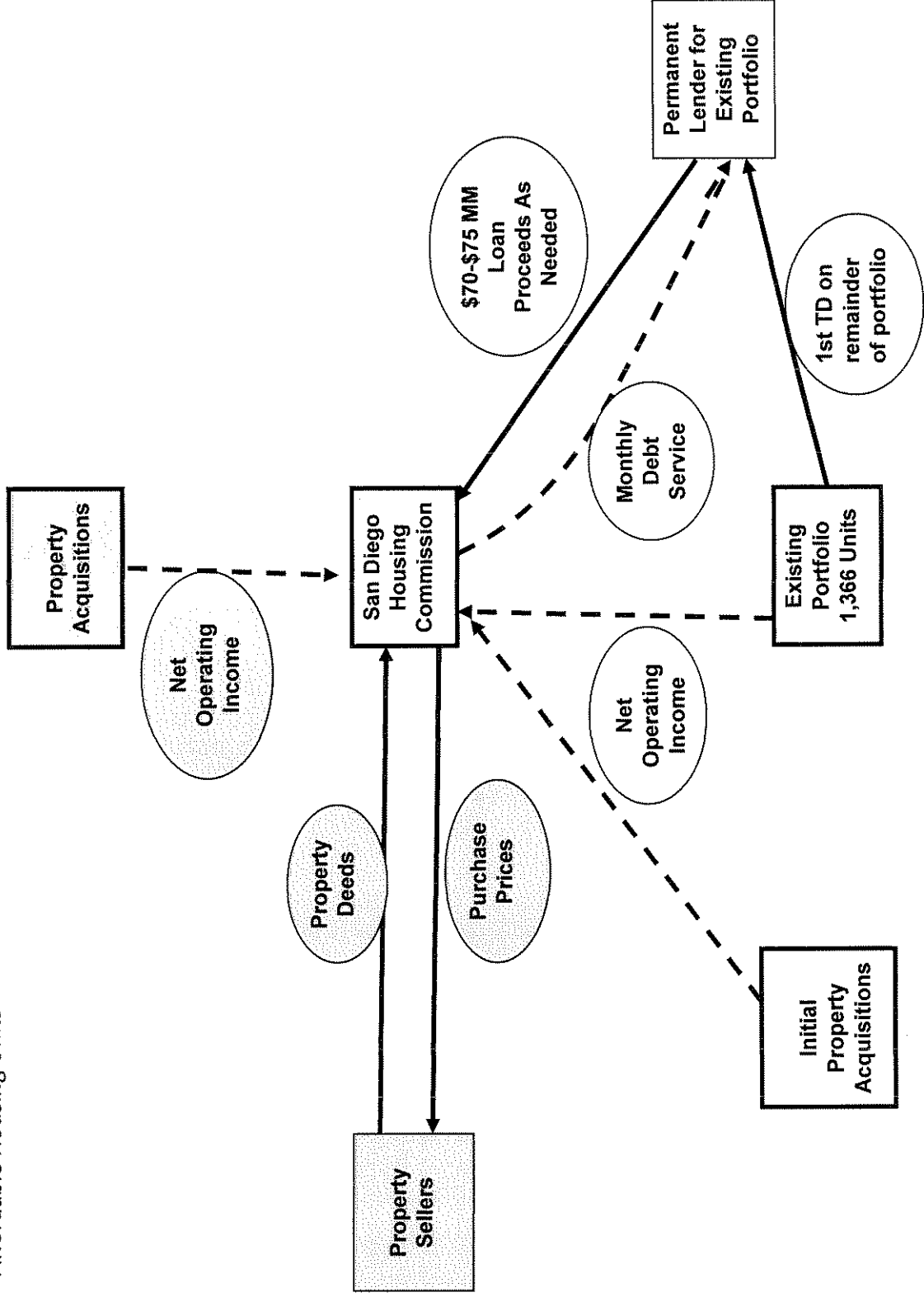
Permanent Lender Funds  
Remainder of Financing on  
Existing Portfolio As Needed  
For Acquisitions



## SECOND PHASE OF ACQUISITIONS

SDHC Uses Loan Proceeds to Acquire Additional Affordable Housing Units

Funding Beginning 4Q2009



## SECOND PHASE OF ACQUISITIONS

Funding Beginning 4Q2009

SDHC Files Form 8038 to Receive  
 BABs Interest Rebate for 35% of  
 Interest Paid On Debt Used to  
 Acquire Qualifying Assets

