

MEMORANDUM

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DATE: AUGUST 2, 2012 CW1710
ROPS n/a

TO: GOVERNING BOARD

FROM: CHRISTINE ESSEL, CHIEF EXECUTIVE OFFICER

STAFF: JENNY SCANLIN, SENIOR OPERATIONS OFFICER
OSCAR IXCO, SPECIAL PROJECTS OFFICER

SUBJECT: **FAME ARMS LOAN MODIFICATION – NON-MONETARY ACTION.**
Various actions related to the transfer of ownership and assignment and subordination of loan documents and affordability covenants for a loan in the approximate amount of \$2,264,856 in order to rehabilitate the FAME Arms Apartments project, consisting of 40-units of affordable housing located at 2420 Western Avenue in the Adams-Normandie Redevelopment Project Area.
(SD2; CD8)

RECOMMENDATIONS

That the Governing Board, adopt a Resolution, taking the following actions:

- A. Approving the transfer of ownership of the FAME Arms Apartments project ("Project") and related real property located at 2420 Western Avenue ("Property") (Site Map, Attachment A) from FAME/Good Shepherd Center Housing Development Corporation to FAME Arms Preservation, L.P. ("Developer"), and authorizing the Chief Executive Officer ("CEO") or designee to take such actions as may be necessary to carry out approval of the transfer of the Project and Property, upon satisfaction of specified conditions;
- B. Authorizing the CEO or designee to execute an Assignment, Assumption and Modification Agreement ("Agreement") relating to the assignment of an existing loan in the approximate amount of \$2,264,856 (including accrued interest) and related loan documents (including affordability covenants) from FAME/Good Shepherd Center Housing Development Corporation to the Developer and the modification of the loan documents and the affordability covenants to extend their terms and final repayment date to 55 years after recordation of the Agreement, upon satisfaction of specified conditions; and
- C. Making the finding that an economically feasible alternative of financing on substantially comparable terms but without subordination of the CRA/LA affordability covenants is not reasonably available, and authorizing the CEO or designee to execute a Subordination Agreement subordinating the CRA/LA's Deed of Trust and affordability covenants to the construction and permanent loans providing for the rehabilitation of the Project, upon satisfaction of specified conditions.

SUMMARY

In 1986, FAME/Good Shepherd Housing Partners ("Borrower") received a Predevelopment Loan from The Community Redevelopment Agency of the City of Los Angeles, CA ("Former Agency") to purchase and construct a HUD 202 Project for seniors and disabled at the Property. The loan, which provided \$1,350,000 to the Project, accrues interest at 3% per annum for a 30-year term that expires in 2029 with repayment from a pro rata portion of residual receipts, secured by a deed of trust on the Property. Under the current proposal, FAME/Good Shepherd Center Housing Development Corporation will sell the Project and Property to the Developer, which will assume the Former Agency loan and rehabilitate, operate and own the Project in the future. FAME is the Managing Partner for the new limited partnership.

The proposed rehabilitation includes extensive interior rehabilitation of all 40 units, including new cabinets and equipment in kitchens and bathrooms, fixing and replacing broken windows, doors, improving energy efficiency, patching holes in walls, painting units, installation of new flooring and window covering, and improving ADA conditions. Exterior work will include replacing the hot water boiler, installing new roof, replacing major mechanical systems, painting, landscaping, and upgrading the Project's security system. The total project cost is estimated to be \$7,806,136.

Upon completion, the Project will maintain its 40 one-bedroom units and the CRA/LA loan balance will be approximately \$2,264,856, consisting of \$1,350,000 in principal and \$914,856 in interest as of July 23, 2012. The Developer intends to rehabilitate the Property without having to relocate tenants permanently. If the rehabilitation of the Project receives an allocation of 4% Tax Credits and Bonds, the Developer expects to start construction the 2nd quarter of 2013. The units and affordability levels will remain the same, as the Project is subject to a HUD contract. The Former Agency's affordability covenants restrict occupancy of all forty units at 50% AMI, however, the HUD contract requires contract gross rents of \$1,071 per unit. The proposed Agreement which would be recorded at the time of the closing of the construction financing for the rehabilitation of the Project will extend the terms of the Former Agency's loan documents and the affordability covenants and the final repayment date (subject to additional underwriting which will be required at the time of application to CDLAC or TCAC) to 55 years after recordation of the Agreement (from 2029 to 2068 if rehabilitation occurs as currently anticipated). Prior to consenting to the transfer of the Project and Property and assignment and assumption of the loan documents/affordability covenants, the CRA/LA will require that the Developer shall have secured necessary financing for the rehabilitation of the Project and that the Developer comply with all CRA/LA and any Los Angeles Housing Department ("LAHD") relocation, prevailing wages and other policies regarding the rehabilitation, including, but not limited to, CRA/LA In-Place Rehabilitation Procedures or procedures established by LAHD. The Developer will also be required to comply with LAHD's policy on bond allocation with 4% Low Income Housing Tax Credits ("LIHTC") that are being re-syndicated.

State law permits a redevelopment agency to subordinate its affordability covenant to a lender's financing where an economically feasible alternative method of financing the project on substantially comparable terms and conditions is not available without subordination, and where the lender agrees to provide specific notice and cure provisions. Subordination of the CRA/LA affordability covenants will be required by the new construction and permanent lender(s). Prior to agreeing to conventional lender subordination, the CRA/LA will require that the Subordination Agreement contains notice and cure provisions which reasonably protect the CRA/LA's affordability covenants in the event of the Developer's default under any of the senior loans (Authorizing Resolution, Attachment B).

PREVIOUS ACTIONS

November 1, 1989: Former Agency Board of Commissioners authorization to execute an Amended Feasibility Loan Agreement between the Agency and FAME/Good Shepherd Center Housing Development Corporation to increase the Agency loan by up to \$800,000 from \$550,000 to \$1,350,000.

February 24, 1986: Former Agency Board of Commissioners authorization to execute a Loan Agreement between the Agency and FAME/Good Shepherd Center Housing Development Corporation in an amount not to exceed \$550,000.

DISCUSSION & BACKGROUND

Sponsor Entity

The FAME/Good Shepherd Center Housing Development Corporation is a single-purpose organization, formed specifically to develop the FAME/Good Shepherd Center Villa to housing handicapped persons by two local church groups. The First African Methodist Episcopal (FAME) Church, Los Angeles, is the oldest black congregation in the City of Los Angeles. The church is concerned with senior citizens, youth, economic development, the handicapped, self-help, health care, and voter rights.

The Good Shepherd Center was established in 1973 through the efforts of the congregation of Christ the Good Shepherd Episcopal Church. It is governed by a community based Board of Directors, the majority of whom are persons with severe physical disabilities or sensory impairments. Since 1973, the Good Shepherd Center has provided services to over 20,000 adults with physical disabilities or sensory impairments without regard to race, creed, color religion, sex, residency, or economic status.

Location

The Property is located along the east side of Western Avenue just north of Adams Boulevard and south of 22nd Street in the Adams-Normandy Redevelopment Project Area. The Adams-Normandy Redevelopment Project Area is generally bounded by Adams Boulevard, Western Avenue, Santa Monica Freeway, and Figueroa Street.

Site Description

The 0.90 acre Property contains a 32,705 square foot multi-family residential apartment building on an L-shaped parcel that is oriented toward both Western Avenue and Hobart Boulevard with a structural presence along both streets. Residential, commercial, and institutional uses neighbor the Property and the area is recognized as a historic district.

Project Description

The Project consists of forty (40) one bedroom rental housing units for the physically handicapped and elderly. The Project includes 18 parking spaces, open space and landscaping, indoor and outdoor recreation and common facilities and other facilities and amenities appropriate for the occupants of the development. The design of the building incorporates high pitched roof lines, balconies and well-articulated elevations compatible with the adjacent historic neighborhood.

CRA/LA Loan Terms

The term of the loan (including final repayment date) will be modified to extend it by 55 years from the date of recordation of the Agreement subject to additional underwriting which will be required at the time of application to CDLAC or TCAC. The loan will continue to accrue interest at 3% per annum, and will be repaid from a pro-rata share of the Project's residual receipts during operations. The CRA/LA's affordability covenants on the Property will be modified to

extend the term of the affordability covenants by 55 years from the date of recordation of the Agreement. The purpose of the Former Agency's loan was to make possible the development of rental housing that will remain affordable to low- and very low-income seniors for at least 55 years. Given the financial structure of affordable rental housing, including long-term restrictions on the maximum amount of rent that may be charged, it is not anticipated that CRA/LA, or LAHD as the housing successor, will recapture the full principal and/or accrued interest.

SOURCE OF FUNDS

Loan proceeds are fully disbursed; no new CRA/LA funds are required for this action. The sources of funds for the existing loan were the Bunker Hill Replacement Housing Trust Funds (\$1,350,000).

ROPS AND ADMINISTRATIVE BUDGET IMPACT

The existing loan constitutes a "housing asset" as defined in AB 1484 [Section 34176(e)] and is expected to be transferred to the housing successor (LAHD) shortly. LAHD has been advised of the proposed actions in this memorandum and concurs with the proposal for assignment, assumption and modification of the CRA/LA's existing loan documents and affordability covenants. As a "housing asset" any loan repayment would not be allocated to the taxing entities, but would be made to the housing successor and be required to be used by the housing successor for affordable housing purposes. The proposed actions are consistent with the treatment of housing asset loan repayments under AB 1484.

ENVIRONMENTAL REVIEW

The project is categorically exempt from CEQA pursuant to Section 15301 (repair and maintenance of an existing structure).

Christine Easel
Chief Executive Officer

By:



David Riccitiello
Chief Operating Officer

There is no conflict of interest known to me which exists with regard to any CRA/LA officer or employee concerning this action.

ATTACHMENTS

Attachment A: Location/Site Map
Attachment B: Authorizing Resolution

Site Map

2420 Western Avenue - Fame Arms

CRA/LA



Street View along Western Ave.

ATTACHMENT B

CRALA, A DESIGNATED LOCAL AUTHORITY

(Successor Agency to the Community Redevelopment Agency of the City of Los Angeles, CA)

RESOLUTION NO. _____

A RESOLUTION OF THE CRA/LA, A DESIGNATED LOCAL AUTHORITY AS SUCCESSOR TO THE COMMUNITY REDEVELOPMENT AGENCY OF THE CITY OF LOS ANGELES, CALIFORNIA, REGARDING THE CONDITIONAL TRANSFER TO A NEW DEVELOPER, ASSIGNMENT, ASSUMPTION AND MODIFICATION OF LOAN DOCUMENTS AND SUBORDINATION OF AFFORDABILITY COVENANTS PURSUANT TO SECTION 33334.14 OF THE COMMUNITY REDEVELOPMENT LAW FOR THE FAME ARMS PROJECT

WHEREAS, the CRA/LA, a Designated Local Authority ("CRA/LA") and successor agency to The Community Redevelopment Agency of the City of Los Angeles, California ("Former Agency"), proposes to enter, upon satisfaction of certain conditions, into an Assignment, Assumption and Modification Agreement ("Agreement") with FAME Arms Preservation, L.P., a California limited partnership ("Partnership"), the proposed successor to FAME/Good Shepherd Center Housing Development Corporation, a California corporation ("Borrower"), to which the Former Agency has provided financial assistance for the purpose of developing 40 units of affordable rental housing for very low and low income persons or families or households (the "Project"); and

WHEREAS, the Former Agency previously loaned Borrower approximately \$2,264,856 (including accrued interest) for acquisition, predevelopment and development of the Project (the "Existing Loan"); and

WHEREAS, Borrower intends to transfer the Project and the real property on which the Project is located ("Property") and assign the Former Agency loan documents and affordability covenants related to the Existing Loan to the Partnership; and

WHEREAS, it is proposed that the CRA/LA agree to enter into an Assignment, Assumption and Modification Agreement (the "Agreement") consenting to the transfer of the Property and Project to the Partnership, the assignment and assumption of the loan documents and affordability covenants relating to the Existing Loan from Borrower to the Partnership, and the modification of the loan documents and the affordability covenants to extend their terms and the final repayment date (subject to additional underwriting which will be required at the time of application to CDLAC or TCAC) to 55 years after recordation of the Agreement; provided that the Partnership secures new financing as detailed in the accompanying board memorandum and that the Partnership complies with all relocation, prevailing wages and standard CRA/LA policies with regard to the rehabilitation of the Project; and

WHEREAS, future lenders for the proposed rehabilitation of the Project may require subordination of the Existing Loan documents and affordability covenants to their loans; and

WHEREAS, there has been presented to the CRA/LA evidence sufficient on which to find an economically feasible alternative method of financing the rehabilitation of the Project on substantially comparable terms and conditions, but without subordination, is not reasonably available; and

WHEREAS, by board memorandum accompanying this Resolution and incorporated into this Resolution by this reference (the "Board Memorandum"), the CRA/LA has been provided with additional information upon which the findings and actions set forth in this Resolution are based.

NOW, THEREFORE, THE CRA/LA, A DESIGNATED LOCAL AUTHORITY AND SUCCESSOR AGENCY TO THE COMMUNITY REDEVELOPMENT AGENCY OF THE CITY OF LOS ANGELES, CALIFORNIA DOES HEREBY RESOLVE AS FOLLOWS:

1. That the CRA/LA hereby finds and determines that the above recitals are true and correct and have served as the basis, in part, for the findings and actions of the CRA/LA set forth below.
2. That the CRA/LA consents to the transfer of the Project and Property to the Partnership, the assignment and assumption of the documents related to the Existing Loan to the Partnership and the modification of the loan documents and the affordability covenants to extend their terms and the final repayment date (subject to additional underwriting which will be required at the time of application to CDLAC or TCAC) to 55 years from the date of recordation of the Agreement and upon satisfaction of the following conditions:
 - a. The Partnership secures new financing as detailed in the accompanying Board Memorandum;
 - b. The Partnership complies with all relocation, prevailing wages and standard CRA/LA and Los Angeles Housing Department ("LAHD") policies with regard to the rehabilitation of the Project, including, but not limited to, CRA/LA In-Place Rehabilitation Procedures or procedures established by LAHD;
 - c. The Partnership complies with LAHD policies with regard to a bond allocation with 4% Low Income Housing Tax Credits ("LIHTC") that are being re-syndicated; and
 - d. The CRA/LA and Partnership enter into the Agreement as described in this Resolution and the Board Memorandum.
3. That the CRA/LA authorizes the Chief Executive Officer ("CEO") of the CRA/LA, or designee, to execute the Agreement in a form and content satisfactory to the CEO, or designee, and CRA/LA Legal Counsel upon satisfaction of the conditions listed in 2 above and take such other actions and execute such other documents as are appropriate to effectuate the intent of this Resolution and the Agreement.
4. The CRA/LA hereby finds that an economically feasible alternative method of financing the rehabilitation of the Project on substantially comparable terms and conditions, but without subordination, is not reasonably available.
5. The CRA/LA hereby authorizes the CEO, or designee, to take such actions as may be necessary to subordinate the CRA/LA's affordability covenants, as modified, and deed of

trust related to the Project to the liens of the lenders providing financing for the rehabilitation of the Project, but only upon receipt by the CEO or designee of written commitments from such lenders, reasonably designated to protect the CRA/LA's investment in the event of default, including but not limited to the following:

- a. A right of the CRA/LA to cure a default on the loan;
- b. A right of the CRA/LA to negotiate with the lender after the notice of default from the lender;
- c. An agreement that if prior to foreclosure of the loan, the CRA/LA takes title to the property and cures the default on the loan, the lender will not exercise any right it may have to accelerate the loan by reason of transfer of title to the CRA/LA; and
- d. A right of the CRA/LA to purchase the property from the Partnership at any time after default on the loan.

ADOPTED: _____