

MEMORANDUM

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DATE: AUGUST 2, 2012
TO: GOVERNING BOARD
FROM: CHRISTINE ESSEL, CHIEF EXECUTIVE OFFICER
STAFF: JENNY SCANLIN, SENIOR OPERATIONS OFFICER
OSCAR IXCO, SPECIAL PROJECTS OFFICER
SUBJECT: **FAME GARDENS 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 \$11,863,711 in order to rehabilitate the FAME Gardens Apartments project, consisting of 81-units of affordable housing located at 3730 West 27th Street.
(SD2; CD10)

CW1031
AN1040
ROPS n/a

RECOMMENDATIONS

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

- A. Approving the transfer of ownership of the FAME Gardens Apartments project ("Project) and related real property located at 3730 West 27th Street ("Property") (Site Map, Attachment A) from FAME Gardens, L.P. to FAME Gardens 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 \$11,863,711 (including accrued interest) and related loan documents (including affordability covenants) from FAME Gardens, L.P. to the Developer and the modification of the loan documents and the affordability covenants to extend their terms and the final repayment date to 55 years after the 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 1992, FAME Gardens L.P. ("Borrower") was issued a Predevelopment Loan for the acquisition of the Property. In 1994, The Community Redevelopment Agency of the City of Los Angeles, CA ("Former Agency") increased that loan to \$7,980,656 and converted the loan to a Construction and Permanent Loan. The loan currently accrues interest at 3% per annum for a 55-year term that expires in 2048 with repayment from a pro rata portion of residual receipts, secured by a deed of trust on the Property.

The recommended actions will enable the Developer to proceed with a re-syndication of tax credits and a significant rehabilitation of the Project. The proposed rehabilitation includes extensive interior rehabilitation of all 81 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 rehabilitation cost is estimated to be \$24,911,045.

Upon completion of the rehabilitation, the Project will maintain its 81 two and three-bedroom units and the CRA/LA loan balance will be approximately \$11,863,711, consisting of \$7,810,745 in principal and \$4,052,966 in accrued interest as of July 23, 2012. 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.

It is not anticipated that the rehabilitation of the Project will require any permanent relocation during the rehabilitation.

State law permits a redevelopment agency to subordinate its affordability covenants 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

August 18, 1994: Former Agency Board of Commissioners authorization to negotiate and execute a First Amendment to the Loan Agreement with FAME Gardens Limited Partnership to increase the Agency loan by \$600,000 from \$7,380,656 to \$7,980,656.

November 4, 1993: Actions related to the Loan Agreement with FAME Gardens to allocate an additional \$250,000 to the FAME Gardens Apartments

December 3, 1992: Former Agency Board of Commissioners authorization to execute a Loan Agreement with FAME Gardens Limited Partnership in an amount not to exceed \$7,130,656.

DISCUSSION & BACKGROUND

Sponsor Entity

FAME Housing Corporation (“FAME”), a subsidiary of First African Methodist Episcopal Church, Inc., of Los Angeles, was created in 1985 as a non-profit 501(c)3 corporation specifically for housing development. FAME is involved in the areas of senior citizens, youth, economic development, the handicapped, self-help, health care and voter rights. The Church was instrumental in the relief of many who were victimized as a result of the Los Angeles civil disturbance. A few of FAME’s previous projects include FAME Manor, a 56-unit apartment complex; FAME Arms, a 40-unit apartment complex; FAME Northwest and FAME Northeast, 22 and 24 unit apartment complexes.

Location

The Property is located along the south side of 27th Street just west of 7th Avenue in the West Adams-Baldwin Hills-Leimert Community Plan of the City of Los Angeles.

Site Description

The Property is located one block south of Adams Boulevard between 7th Avenue and Chico Street in an area known as Jefferson Park. The Property occupies approximately 82,109 square feet. The surrounding area is mostly low-density residential with public facilities to the east and an active business district to the north of the site on Adams Boulevard.

Project Description

The FAME Gardens Project was originally constructed as 81-units of family housing and the rehabilitation of an existing two-story house to provide a child-care facility on site. Of the 81-units, 41 are two-bedroom and 40 are three-bedroom. The associated child care facility has a capacity for fifty children and provides first priority space to the FAME Gardens residents. The residential project ranges in height between three and four stories of Type V construction over two levels of subterranean parking. The Project has a total of 195 parking spaces (162 spaces for residential, 21 spaces for guests, and 12 spaces for childcare center employees). The Project provides nine (9) two-bedroom and eight (3) bedroom units at 50% AMI and thirty-two (32) two-bedroom and thirty-two (32) three-bedroom units at 60% AMI. The Project intends to maintain these levels of affordability moving forward.

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 it 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 its term 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 households 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 loan 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 (\$7,980,656).

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 covenant. 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 Essel
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

3730 W 27th Street - Fame Gardens

CRA/LA



Street View along 27th Street

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 GARDENS 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 Gardens Preservation, L.P., a California limited partnership ("Partnership"), the proposed successor to FAME Gardens Limited Partnership, a California limited partnership ("Borrower"), to which the Former Agency has provided financial assistance for the purpose of developing 81 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 \$11,863,711 (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 proposed 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 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: _____