



BURBANK HOUSING DEVELOPMENT CORPORATION

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August 5, 2019

Ms. Nancy Manchester
90 Santa Rosa Avenue
Santa Rosa, CA 95402-1806

**RE: Lantana Place
2979 Dutton Meadow (“Property”)**

Nancy,

Per your request, I have updated our loan modification request to include an analysis of the project’s history and summary of the proposal. Please contact me should you have any questions.

EXECUTIVE SUMMARY

In 2007, Burbank Housing Development Corporation (“Burbank”) worked with the Santa Rosa Housing Authority (“Housing Authority”) on the acquisition of the 4 acre residential development property now known as Lantana Place Homes. Burbank originally planned the property for the construction of a 100 unit rental community, but due to various circumstances previously presented to the Housing Authority the project was unable to secure financing and proceed into construction. At the time of the acquisition, the project had an estimated total development cost of \$32.7 million. In today’s dollars, the same 100 unit rental community could cost approximately \$45 million. Given the constraint on funding sources, in April 2017 Burbank proposed a 48 unit home ownership program to reduce the development costs that would allow the use of Housing Authority sources and traditional bank construction loans to finance the construction of the project.

Unfortunately, costs have increased dramatically following the wildfires in October 2017. This situation is further complicated by the realization of unforeseen environmental mitigation impacts and the recognition of the previous rental project’s development costs in the current budget. As a result, the total cost to construct the homes now exceeds the appraised sales prices. In addition, the cost increases have associated debt obligations that also exceed the appraised sales prices. This has created a situation where each home is over-encumbered with liens. Therefore, Burbank is requesting that the Housing Authority modify its loan commitments to ensure the project can secure bank financing and proceed into construction.

It is important to note that the loan modification request does not propose a reduction in the Housing Authority’s principal loan amounts, but rather a restructuring of the loans to allow for alternative repayment plans. However, Burbank is requesting that the accrued interest be

forgiven to avoid passing on significant accumulated interest to the Buyers that would reduce the advantages of home ownership. The following summarizes the request:

- 1.) Burbank is seeking Housing Authority approval to reduce the total debt encumbering the Lantana project by releasing approximately \$3,590,000 in liens from the collateral and creating three new recourse loans through the use of a corporate guaranty.
- 2.) Burbank is seeking Housing Authority approval of a repayment plan for the \$3,590,000 in the new recourse loans. The loans will be guaranteed by Burbank through an intermediate period to allow for the refinancing of a Burbank portfolio of properties. Once the refinancing is complete, a payment of \$1,878,703 will be made. The balance of the loans will be restructured for payment over a 55-year term with recourse to Burbank through a corporate guaranty.
- 3.) Burbank is seeking Housing Authority approval of accumulated interest forgiveness in the approximate amount of \$940,000. Burbank is also requesting a modification to the loans that will remain in the project. Those loans are proposed to become non-interest bearing through the construction period. The loans will then convert back to 3% simple interest upon close of escrow to the home owner.

BUDGET ANALYSIS

The current project budget totals \$28,508,744 or \$593,932 per unit. The appraised retail market value is \$23,945,000, which equates to an average sales price of approximately \$499,000. The Burbank sales team is recommending an average sales price of \$494,000 as a result of its market analysis and research of potential residents. Therefore, a reduction in costs basis of approximately \$4,790,000 is required in order to avoid encumbering the homes with debt obligations in excess of the sales prices. The necessary reduction in costs generally correlates to the recognition of approximately \$1,700,000 in previous rental project costs and the realization of approximately \$2,790,000 and \$300,000 in hard cost escalation and unforeseen environmental mitigation, respectively.

FUNDING ANALYSIS

Burbank is seeking approval from the Housing Authority for the restructuring of project loans to enable a senior construction lender to finance 80% of the project costs. Burbank has requested a construction loan in the amount of \$19,130,000 to match the traditional mortgages that will be secured by the buyers and serve as a permanent source of financing. A lender has been selected and a term sheet secured, with the proposed close of escrow subject to a successful restructuring of the Housing Authority loans.

If the Housing Authority approves the loan modification request, as previously discussed approximately \$3,590,000 will be removed from the collateral base to allow for a reduction of the project cost basis. Burbank will also contribute towards this effort by writing off its full investment of \$700,000 in the project. Additionally, Burbank has raised \$500,000 from the Sonoma County Vintners Association that will be used to fund previous project costs. The Vintners' commitment to the Lantana project demonstrates the importance of building the 48 homes to its members. These three sources of funding total approximately \$4,790,000.

The following describes the loans that been approved by the Housing Authority and committed to the Lantana Place development:

Santa Rosa Housing Authority Loan Summary			
Year / Order No.	Amount	Funding Source	Loan No.
2007 / #1	\$1,478,703	CDBG	9032-1825-07
2007 / #1	\$400,000	In-Lieu Fees	9932-1835-07
2010 / #2	\$500,000	Low-Mod	9932-2075-10
2017 / #3	\$261,530	Operating Reserves	9932-2781-17
2017 / #3	\$1,250,000	RPTT	9932-2791-17
2017 / #3	\$1,888,470	In-Lieu Fees	9932-2801-17
2018 / #4	\$1,300,000	In-Lieu Fees	9932-2801-17
Total	\$7,078,703		

If the Housing Authority approves the loan modification request, Loans #1 and #2 totaling \$2,378,703 would be removed from the collateral base and become recourse loans secured by a corporate guaranty. Loan #3 would be modified to reduce the principal amount secured by the Lantana project from \$3,400,000 to \$2,188,655, for a reduction of \$1,211,345. This modified amount would also become a recourse loan. The balance of Loan #3 would remain a project-based loan in the amount of \$2,188,655.

Therefore, pursuant to the loan modification proposal, the Housing Authority would have approximately \$3,489,000 in project-based loans for the construction of Lantana Place. The project-based loans would be comprised of \$2,188,655 remaining from Loan #3 and \$1,300,000 available from Loan #4. These loans will ultimately be converted to “silent second” down payment assistance for the homebuyers. The Housing Authority would be in a second position, behind only the senior construction lender. The \$3,590,048 in modified loan amounts, comprised of \$2,378,703 from Loans #1 and #2 as well as \$1,211,345 from Loan #3, would become recourse loans. These loans would be recourse to Burbank, secured through a corporate guaranty and subject to repayment plans as discussed in the following section.

PROPOSED LOAN MODIFICATIONS

Loan #1

1. Repayment: Burbank is requesting the Housing Authority to release the lien associated with Loan #1 from the Property serving as its collateral. However, if unable to repay the loan through a refinance of a portfolio of its properties, Burbank shall provide alternative collateral to secure the loan. The principal amount of \$1,878,703 shall be repaid from sources unrelated to the Lantana project. Burbank is in the process of refinancing a portfolio of properties in which the Housing Authority is a subordinated lender (“Refinancing”). Proceeds from the Refinancing would be used to repay Loan #1.
2. Interest: Burbank is proposing that Loan #1 be modified to non-interest bearing through the balance of the term.

3. Recourse/Collateral: Burbank is requesting that Loan #1 be released from the collateral base and modified to be a recourse loan, guaranteed by Burbank's income from its property portfolio for the total principal amount. In the event Burbank is unsuccessful in securing the Refinancing it is pursuing simultaneously with this request, it is willing to present Cypress Ridge Apartments as collateral for repayment. Since Cypress Ridge Apartments is one of the properties identified for the Refinancing, it cannot be further encumbered in advance of closing the new loans, so Burbank would provide an interim corporate guaranty as security. This is why Burbank is requesting that Loan #1 be approved without a security interest in real property, but rather modified as a recourse loan secured by Burbank for repayment. Should Cypress Ridge Apartments be pledged as collateral in the scenario referenced above, Burbank would be released as the Guarantor and the Housing Authority's recourse for repayment would be to the collateral.
4. Term: Burbank is proposing to modify the term of the loan to 55 years following the modification date.
5. Payments: Burbank is proposing a non-amortizing loan for the first 2 years of the modified term. If the Refinancing efforts are unsuccessful and the loan is not paid in full during the first 2 years, the loan shall amortize over the following 53 year period with payments due quarterly.

Loan #2

1. Repayment: Burbank is requesting the Housing Authority release the lien associated with Loan #2 from the Property serving as its collateral and allow Burbank to secure the principal through alternative collateral in the form of an interim corporate guaranty. The principal amount of \$500,000 shall be repaid from other sources unrelated to the Project. Although Burbank will seek other sources of repayment, Burbank is proposing that the primary source of repayment for the new recourse loan shall come from the cash flow of Burbank's operations. Other sources could be available during the term of the loan, including New Market Tax Credits as well as other available state programs.
2. Interest: Burbank is proposing that Loan #2 be modified to non-interest bearing through the balance of the term.
3. Term: Burbank is proposing to modify the term of the loan to 55 years following the modification date.
4. Payments: Burbank is proposing a non-amortizing loan for the first 2 years of the modified term. Thereafter, the loan shall be amortized over a 53-year period with payments due quarterly.
5. Recourse/Collateral: Although Burbank is unable to provide real property as collateral for this loan due to restrictions and covenants of existing loans on its portfolio properties, it's proposing to provide the Housing Authority with a corporate guaranty in the principal amount.

Loan #3

1. Repayment: Burbank is proposing to modify the current loan of \$3,400,000 by reducing it to \$2,188,655. The \$1,211,345 reduction in the loan amount would be restructured as an unsecured loan and removed from the Property but alternatively secured. Similar to Loans #1 and #2, as a condition of the modification Burbank will provide the Housing Authority with a corporate guaranty as recourse for the full repayment of the new loan in the amount of \$1,211,345.
2. Interest: Burbank is proposing that Loan #3 be modified to non-interest bearing through the balance of the term.
3. Term: Burbank is proposing to modify the term of the loans to 55 years following the modification date.
4. Payments: Burbank is proposing non-amortizing loans for the first 2 years of the modified term. Thereafter, the loan shall be amortized over a 53-year period with payments due quarterly.
5. Recourse/Collateral: Although Burbank is unable to provide real property as collateral for this loan due to restrictions and covenants of existing loans on its portfolio properties, it's proposing to provide the Housing Authority with a corporate guaranty in the principal amount of \$1,211,345. Similar to Loans #1 and #2, the guaranty for Loan #3 will be backed by Burbank's cash flow from operations.
6. The remaining principal balance of \$2,188,655 will be utilized for the construction of the project and become a permanent source of financing as down payment assistance for homeowners. The terms of this loan are described below in the Silent Seconds section.

The following summarizes the proposed modifications that would result in both unsecured loans guaranteed by Burbank and secured project-based loans backed by the Lantana collateral:

Proposed Loan Summary			
Loan Group	Original Amount	Modified Amounts (Guaranteed Loans)	Remaining Amounts (Secured Loans)
Loan #1	\$1,878,703	\$1,878,703	\$0
Loan #2	\$500,000	\$500,000	\$0
Loan #3	\$3,400,000	\$1,211,345	\$2,188,655
Loan #4	\$1,300,00	\$0	\$1,300,000
Totals	\$7,078,703	\$3,509,048	\$3,488,655

Silent Seconds

The \$3,488,655 in loans being proposed to stay in the project will be structured as silent second mortgages. At approximately \$72,700 per unit, the silent second loans represent 14.7% of the total capital or cost of each home. The term will be 30 years with the Housing Authority receiving the lesser of 3% deferred simple interest or its proportionate share of the appreciation.

Loan Advances

As a result of the delays in construction associated with the 100 unit rental community originally contemplated for the property, HUD has evaluated the variance in the scheduled commencement and completion dates. Accordingly, the Housing Authority has requested that Burbank commence with construction of the project by the 15th of August. In order to meet that schedule, Burbank is proposing to utilize the loan funds available in the Housing Authority's Loan #3 for the construction of the project's site work. Burbank is also planning on utilizing County funds awarded to Burbank in the total amount of \$1,100,000. Burbank has requested that the County modify their terms to match those being requested of the Housing Authority. The County has expressed support for this request and has a policy that would allow a modification to match the terms of a senior loan.

Burbank is proposing to close on the loan modifications following the commencement of construction to allow for coordination between the Housing Authority, County and Construction Lender.

Loan #3

Burbank is requesting the Housing Authority continue to make progress payments on the loan balance through the start of construction and subordinate all of its loans to the construction loan. Once the loan has been fully funded, the closing of the modification if approved would create a new unsecured loan in the amount of \$1,211,345 ("Loan #3M).

Loan #4

In Fall of 2018, the Housing Authority committed an additional \$1,300,000 to the Lantana development. Burbank plans to accept these funds for the construction of the community in August 2019.

Burbank Corporate Guaranty

Burbank is proposing to provide a corporate guaranty as security for Loan #1 in the amount of \$1,878,703 (Guaranty #1) as well as for Loans #2 and #3M in the combined amount of \$1,711,345 ("Guaranty #2). As referenced above, if the Loan Modification Request is approved by the Housing Authority, Burbank would be providing a corporate guaranty for the modified loans in the total amount of \$3,509,048. The guarantees would be supported by the full faith and credit of Burbank. Burbank has contractual month-to-month income from management fees, accounting fees, rental income, and service fees from our portfolio of over 60 properties. In addition, Burbank earns annual surplus cash from portfolio properties and developer fees from new developments. Burbank projects cash flow from operations as a result of monthly and annual fees to be approximately \$1.5 Million in 2019. Based on the consistent revenues stream from our growing portfolio Burbank can provide the net operating income available to service the payments for the term of the loan. The following summarizes the characteristics of each guaranty:

Guaranty #1

As previously mentioned, Burbank is proposing to guaranty Loan #1 during the period in which the Refinancing (as defined above) is in process. Once the Refinancing has been completed, Burbank would pledge the Cypress Ridge Apartments property as collateral. Following the

collateralization of Loan #1, Guaranty #1 will be released, and recourse shall only be to the collateral. In the event the Refinancing is unsuccessful, Burbank will be required to satisfy its obligations under the loan modification terms. The corporate guaranty will provide security and recourse for the Housing Authority to ensure Burbank's performance. Annual loan payments pursuant to the proposed loan modification terms amounts to approximately \$35,000.

Guaranty #2

Burbank is proposing to guaranty Loan #2 and #3M in the aggregate amount of \$1,711,345. Following the successful Refinancing of Burbank's portfolio properties, the annual loan payments would amount to approximately \$32,000.

Conclusion

Burbank's proposal allows the Lantana project to proceed as presented to both the Housing Authority, the County and HUD. This is a significant accomplishment for both Burbank and the Housing Authority, especially considering the circumstances that plagued the project following the recession in 2009. Although the loan modifications will remove the Housing Authority's collateral interest in the Lantana property, Burbank's commitment to repay the loans goes beyond the original agreement by returning approximately \$1,878,000 to the Housing Authority that would have been a project-based loan. Additionally, the \$1,711,345 that will be paid over a 55-year term is generally consistent with the original payback period. Finally, the security of the Housing Authority is also improved due to the recourse nature of the modified loans secured by sufficient cash flow from Burbank's operations.