Agenda Item #10.2
For Housing Authority Meeting of: March 26, 2018

CITY OF SANTA ROSA
HOUSING AUTHORITY

TO: HOUSING AUTHORITY COMMISSIONERS
FROM: NANCY MANCHESTER, PROGRAM SPECIALIST II
HOUSING & COMMUNITY SERVICES
SUBJECT: HOUSING AUTHORITY LOAN MODIFICATION/CONVERSION CRITERIA

AGENDA ACTION: RESOLUTION

RECOMMENDATION

It is recommended by the Housing & Community Services Department that the Housing Authority, by resolution, establish guidelines for considering requests for modification or conversion of Housing Authority loans to grants on a case-by-case basis.

EXECUTIVE SUMMARY

At its November 27, 2017 meeting, the Housing Authority requested a report from staff recommending criteria for evaluation of future loan conversion or modification requests. This item will review recommended criteria for evaluating requests from individuals and developer/nonprofit borrowers to convert or modify their existing loans to grants. Criteria currently exist for evaluation of loan modification or conversion requests from developer/nonprofit borrowers, but not for evaluation of loan modification or conversion requests from individual borrowers.

BACKGROUND

1. The Housing Authority has a loan portfolio of 361 loans. Housing Authority loans generally have favorable terms and require either owner-occupancy (for individual loans) or Regulatory Agreements (for developer/nonprofit loans). From time to time, individual and developer/nonprofit borrowers may request conversion or modification of their Housing Authority loans to grants, an option that has not been available in the past.

2. Santa Rosa experienced devastating wildfires in October 2017 that destroyed thousands of single-family homes, including mobilehomes. The fire didn't destroy any multi-family affordable housing projects.

3. The mobilehomes destroyed included three whose owners received rehabilitation loans from the Housing Authority. Two loans were funded by a grant from the California State Department of Housing & Community Development (HCD) and one was funded by Community Development Block Grant (CDBG).

4. HCD does not allow forgiveness of loans made with HCD-provided funds under any circumstances. CDBG allows for grants, but Housing Authority does not provide for grants regardless of the funding source of the loan. Pursuant to Resolution No. 1639, and because of the occurrence of an unforeseeable natural disaster, the Housing Authority approved transfer of Housing Authority funds to repay the three rehabilitation loans previously mentioned.

5. Loan modifications for individual loans are, under the authority provided in Resolution No. 806, approved at the staff level, usually in the form of changing the terms of a loan from amortized to deferred-payment. From time to time, the Housing Authority receives requests for loan modification or conversion from developer or nonprofit borrowers. Most recently, Community Support Network requested an extension of the loan term for its loan originally made in 1994 in exchange for an extension of the associated Regulatory Agreement. This type of modification is considered and acted upon by the Housing Authority after review and analysis by staff.

PRIOR HOUSING AUTHORITY REVIEW

- Resolution No. 806 approved Standard General Loan Conditions and provided authority for the Executive Director or his designated staff person to make administrative modifications to loans on a case-by-case basis.
- Resolution No. 1636 approved extension of the term of the Community Support Network loan by 10 years in exchange for an extension of CSN's Regulatory Agreement for an additional 10 years.
- Resolution No. 1639 approved transfer of Housing Authority funds to repay three rehabilitation loans made to mobilehome park residents whose units were damaged or destroyed in the October 2017 wildfires.

ANALYSIS

1. The Housing Authority's portfolio of loans to individual borrowers includes Silent Seconds, American Dream Downpayment Initiative (ADDI), and Rehabilitation Loans. Individual borrowers must meet certain income limits and be the owner-occupants of their homes. Loan terms are favorable, with low interest and often with deferred payments. Loans to individuals are made from a variety of funding sources: Federal, state, and local. Loans from Federal funds like HOME and CDBG can, by regulation, be grants; Federally-funded loans include some of the ADDI loans, some of the rehabilitation loans made before 2014 (the year the Housing Authority was awarded CalHome funds to create a new rehabilitation loan program), and many developer or nonprofit loans.

2. Some of the remaining rehabilitation loans made before 2014, most of the Silent Seconds, and many loans made to developers or nonprofit borrowers were funded with local resources like the Low- and Moderate-Income fund. Loans made from these resources fall under the current Housing Authority policy, which does not provide for grants.

3. In addition to the previously mentioned favorable loan terms, loans made to developers and nonprofit borrowers require the occupants of the units to meet certain income limits and occupancy requirements.

4. Staff researched the terms under which other jurisdictions consider loan forgiveness or conversion.

Jurisdiction	**Loan Forgiveness?**	**Loan Conversion?**
City of Emeryville	No	No
City of Napa	No (may consider with proof of short sale)	No
City of Novato	No	No
City of Poway	No (may consider after 10 years for rehabilitation loans)*	No
City of Santa Clara	No	No
County of Los Angeles	No (payments on single family home loans are only due at sale of property)*	Will consider conversion to grant with Executive Director approval in cases of major damage or destruction*.
County of San Diego	No	No
County of Sonoma	No	No

**Only if allowed by funding source.*

5. All Housing Authority loans are secured by collateral. Should a borrower default on the terms of a loan, the Housing Authority may recover its financial resources through foreclosure. If the collateral is destroyed, borrowers are still obligated by the terms of the Promissory Note (Note) executed at loan origination.

6. Destruction of an individual's collateral is unforeseeable and, as with the October 2017 wildfires which destroyed the majority of units in the Journey's End Mobilehome Park, unavoidable. In addition, low-income individual borrowers may not be able to replace destroyed housing, even with insurance coverage, if they continue to be obligated to repay the Housing Authority's loans. Based on information collected from other jurisdictions, the Housing Authority could consider converting or modifying individual borrowers' loans to grants using the following criteria:

   a. The funding source allows grants to be made to borrowers;
   b. The borrower submits a written request for loan conversion or modification that

demonstrates a compelling reason for the request;

c. The borrower still meets the income requirements under which the loan was originally approved; and
d. The collateral has undergone major damage or destruction due to fire, earthquake, landslide, mudslide, flooding, or other natural disaster. The Federal Emergency Management Agency (FEMA) defines “major damage” as follows: “A residence may be categorized as having major damage when it has sustained significant structural damage and requires extensive repairs.” This definition applies to conventionally built structures and mobilehomes.

7. Based on the recommendation made by an Ad Hoc Committee convened in 2013, loans to developers and nonprofit borrowers for multifamily projects may be extended or modified on a case-by-case basis, if requested, using the following for evaluation.

   Guiding Principles
   - Maintain continued affordability;
   - Preserve services and programs; and
   - Recycle resources to support additional efforts.

   Evaluation
   - Review of financial statements and operating budget for subject property to determine borrower’s capacity to debt-service the loan;
   - Analysis of all debt on the property to ascertain loan-to-value and the Housing Authority’s lien priority; and
   - Confirmation of compliance with regulatory terms.

   The current evaluation criteria above are analyzed by staff who then presents a recommendation to the Housing Authority. Generally, if a loan term is extended, the associated Regulatory Agreement is extended by the same amount of time.

8. Should the Housing Authority approve, the criteria for evaluating loan modification or extension requests for developers and nonprofit borrowers would be revised to add the following:

   a. “major damage as defined by FEMA to or destruction of the collateral due to fire, earthquake, landslide, mudslide, flooding, or other natural disaster,” and
   b. “funding source regulations that allow funds to be used for grants.”

   As with existing practice, the revised criteria would still be analyzed by staff who would then present a recommendation to the Housing Authority.

FISCAL IMPACT

The fiscal impact of converting Housing Authority loans to grants would have varying impacts based on the principal amount of each loan that would be converted. Converting small individual loans would not have as great an impact as converting large loans to developers or nonprofits.

ENVIRONMENTAL IMPACT

This action is exempt from the California Environmental Quality Act (CEQA) because it is not a project which has a potential for resulting in either a direct physical change in the environment, or a reasonably foreseeable indirect physical change in the environment, pursuant to CEQA Guideline section 15378.

COUNCIL/BOARD/COMMISSION/COMMITTEE REVIEW AND RECOMMENDATIONS

Not applicable.

NOTIFICATION

Not applicable.

ATTACHMENTS

- Resolution

CONTACT

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