



ARLINGTON COUNTY, VIRGINIA

County Board Agenda Item
Meeting of September 13, 2008

REVISED REPORT

DATE: September 5th 9, 2008

SUBJECT: Modification of Loan Terms of two County loans to Arlington Partnership for Affordable Housing (APAH) or its County-approved affiliate for Columbia Grove Apartments.

REVISION EXPLANATION: APAH has recently received new information that the Virginia Housing Development Authority (VHDA) that may require the County to execute a Standstill Agreement relating to the existing 2003 HOME and CDBG loan, which was not previously anticipated.

RECOMMENDATION:

1. Approve the subordination of the new Affordable Housing Investment Fund (AHIF) loan to APAH, or its designated County-approved ownership affiliate, to the existing HOME and Community Development Block Grant (CDBG) loan with a current balance of approximately \$5.5 million and subordinate both County loans to a new primary loan of up to \$16 million.

2. Authorize the County Manager to execute, subject to approval by the County Attorney, a Standstill Agreement for the 2003 HOME and CDBG loan.

ISSUE: County Board action is needed to allow subordination of two County loans to the primary financing and for the new AHIF loan to be subordinate to the existing HOME and CDBG loan to complete the renovation of Columbia Grove Apartments. A Standstill Agreement may be needed because the 2003 HOME and CDBG loan would mature before the 2008 AHIF loan and APAH's new primary loan from the Virginia Housing Development Authority (VHDA).

SUMMARY: APAH is requesting that the County subordinate its two County loans (the existing HOME and CDBG loan and the new AHIF loan) to a new primary financing package. APAH is preparing to pay off its existing 5-year Citibank primary mortgage and close on a new primary financing package of up to \$16 million through the Virginia Housing Development Authority (VHDA). The County's new AHIF loan, approved in April of 2008, will be subordinate to both the up to \$16 million primary loan and the existing County HOME and CDBG loan of approximately \$5.5 million including accumulated interest. A Standstill Agreement would mean that the County could not call its 2003 HOME and CDBG loan until after the VHDA loan matures (i.e. for a period of approximately 10 years beyond the originally

County Manager: _____

County Attorney: _____

Staff: David Cristeal and Sarah Pizzo, DCPHD

anticipated loan term).

BACKGROUND: In 2003, the County Board approved a loan of \$4.7 million from federal HOME and CDBG funds to APAH to assist with the purchase of Columbia Grove Apartments, which was subordinated to a \$14.6 million loan from Citibank. While no funding was provided at the time for rehabilitation work, the County directed APAH to return in 2008 with a refinancing and redevelopment plan. In April 2008, the County Board approved a new loan of up to \$3 million in AHIF funds to assist with the refinancing and rehabilitation of the property. In June 2008, APAH applied for and received 9% Low Income Housing Tax Credits for the rehabilitation of the property. In September 2008, APAH will pay off the existing 5-year Citibank loan and close on the new primary financing through VHDA. This new primary financing will include up to \$12.5 million in taxable bond financing and \$3.5 million in a SPARC/REACH loan, totaling up to \$16 million in primary financing, although it is not anticipated to exceed \$15.5 million.

DISCUSSION: The April 2008 report did not recommend that the County subordinate its existing 2003 HOME and CDBG loan to APAH's new primary financing from VHDA. In addition, the April report did not clarify that the new AHIF loan of up to \$3 million would be subordinate to the existing HOME and CDBG loan. This subordination is recommended because the existing County loan has a 4% interest rate and the new AHIF loan will carry a 2% interest rate. The most efficient way for APAH to pay off its debt to the County is to pay off the 2003 HOME and CDBG loan first, since it has a higher interest rate. Finally, since the 2003 HOME and CDBG loan has a 30 year term, it would mature before APAH's new AHIF and VHDA loans, which both have 35 year terms. A Standstill Agreement, if required by VHDA, would keep the County from calling its 2003 HOME and CDBG loan in advance of the maturity of the VHDA primary loan.

Revision to Loan Term and Condition #1 of the existing HOME and CDBG loan (originated in 2003)

1. The AHIF/HOME and CDBG assistance will be in the form of a subordinated residual receipts loan, secured by a promissory note and a deed of trust on the property, and repayable from the cash flow from the property. This loan will be made at an interest rate of 4% compounded annually, over a term of up to 30 years. This loan will be subordinate to APAH's ~~primary financing of approximately \$14.64 million~~ new primary financing of up to \$16 million.

Revision to Loan Term and Condition #3 of the new AHIF loan (approved in April of 2008)

3. The new loan amount of up to \$3,000,000 in AHIF shall be in the form of a subordinated residual receipts loan, secured by a deed of trust, and repayable from the cash flow of the property. This loan will be made at an interest rate of two percent (2%), compounded annually over a term of 35 years. ~~The loan may be subordinated to all other debt listed in the proposed financing plan as shown on page 3 of this report.~~ The loan will be subordinate to APAH's new primary financing of up to \$16 million and subordinate to the County's existing HOME and CBDG loan. Payments on this new AHIF loan will not be due until the existing HOME and CDBG loan is paid off, although interest will continue to accrue during this time.

FISCAL IMPACT: None.