

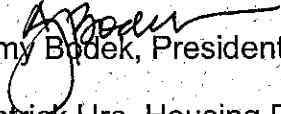
MEMORANDUM



The
**Long Beach
Housing
Development
Company**

DATE: March 16, 2011

TO: Board of Directors
The Long Beach Housing Development Company

FROM: 
Amy Bodek, President

PREPARED BY: Patrick Ure, Housing Development Officer

SUBJECT: **First Amendment to the Disposition, Development and Loan Agreement with Habitat for Humanity Greater Los Angeles for the Washington School Housing Action Plan Focus Area Scattered Sites Development (CD 1)**

RECOMMENDATIONS

1. Approve a First Amendment to the Disposition, Development and Loan Agreement with Habitat for Humanity of Greater Los Angeles to revise the second mortgage assistance amounts based on the appraisal value of the properties at the time of sale and on the actual income of the selected homebuyers; and
2. Authorize the President or designee to execute any and all documents necessary to implement the First Amendment to the Disposition, Development and Loan Agreement.

BACKGROUND

On October 21, 2009, The Long Beach Housing Development Company (LBHDC) Board authorized the President to enter into a Disposition, Development and Loan Agreement (DDA) with Habitat for Humanity Greater Los Angeles (Habitat) for the development of the Washington Focus Area Scattered Sites Development. The approval included gap financing in the amount of up to \$534,700. A copy of the LBHDC staff report is attached for your information.

The project consists of the development of three new single-family homes located on 1495 Henderson, 1495 Chestnut and 1486 Henderson to be sold to very low-income first time homebuyers, and the rehabilitation of 1650 Magnolia to be sold to a low-income first time homebuyer. The LBHDC will also provide assistance to the buyers by converting the gap loan into Second Mortgage Assistance.

Following the Board's approval, Habitat has completed the rehabilitation of 1650 Magnolia and the development of 1494 Henderson.

**MAKING
AFFORDABLE
HOUSING
HAPPEN**

AGENDA ITEM NO. 3

Mailing Address:
110 Pine Avenue
Suite 1200
Long Beach, CA 90802
Tel 562/570-6949
Fax 562/570-5921

PROPOSED AMENDMENTS

On February 11, 2011 Habitat submitted a proposal to amend the DDA for 1650 Magnolia and 1494 Henderson. Below is a summary of the proposed changes.

1650 Magnolia

As shown in the chart below, Habitat proposes to increase the sales price from \$240,000 to \$265,000 based on the actual appraised value, and to select a very low-income buyer rather than a low-income buyer, as is currently required by the DDA. Also, a very low-income buyer will qualify for a first mortgage of \$86,000 as opposed to \$116,400, which is currently contemplated by the DDA. Habitat is proposing to make up the difference for a portion of the shortfall by having the family provide a larger down payment, and utilize WISH Funds in the amount of \$6,000. As a result, the LBHDC's repayment at closing is reduced by \$23,000, and the LBHDC silent second mortgage will increase by \$47,000 but it will increase the overall return to the LBHDC by \$24,700 as shown in the chart below. This structure requires no additional funds from the LBHDC above the \$99,200 that was disbursed during construction per the DDA, and provides for deeper affordability.

	DDA	Proposed	Change
Sales Price	\$240,300	\$265,000	\$24,700
Funds Available at Closing			
Buyer Down Payment	\$1,000	\$2,400	\$1,400
WISH Funds	\$0	\$6,000	\$6,000
First Mortgage	\$116,400	\$86,000	(\$30,400)
Subtotal Funds Available	\$117,400	\$94,400	(\$23,000)
Gap / LBHDC Second	\$122,900	\$170,600	\$47,700
TOTAL	\$240,300	\$265,000	\$24,700
Repayment to LBHDC			
LBHDC Funds Disbursed During Construction	\$99,200	\$99,200	\$0
Cash to LBHDC at close	\$117,400	\$94,400	(\$23,000)
Second Mortgage Repayment to LBHDC	\$122,900	\$170,600	\$32,450
Total LBHDC Repayment	\$240,300	\$265,000	\$24,700
LBHDC Return Over Investment	\$141,100	\$165,800	\$24,700

1494 Henderson

As shown in the chart below, Habitat proposes to increase the sales price from \$263,400 to \$300,000 based on the actual appraised value. In addition, the amount of WISH funds that are available to a buyer are tied to the amount of sweat equity that a buyer performs. Habitat recently changed its sweat equity policy so that a single person only has to perform 250 hours of sweat equity instead of the 500 hours required from a married couple. The buyer of the property is a single parent-household; therefore, the

WISH funds need to be reduced from \$15,000 to 9,000. As a result of the proposed changes, the gap and LBHDC silent second mortgage will increase by \$42,600. This structure requires no additional funds from the LHBDC above the \$150,300 disbursed during construction per the DDA, and it increases the overall return to the LBHDC by \$42,000.

	DDA	Proposed	Change
Sales Price	\$263,400	\$300,000	\$36,600
Funds Available at Closing			
Buyer Down Payment	\$1,000	\$1,000	\$0
WISH Funds	\$15,000	\$9,000	(\$6,000)
First Mortgage	\$130,700	\$130,700	\$0
Subtotal Funds Available	\$146,700	\$140,700	(\$6,000)
Gap / LBHDC Second	\$116,700	\$159,300	\$42,600
TOTAL	\$263,400	\$300,000	\$36,600
Repayment to LBHDC			
LBHDC Funds Disbursed During Construction	\$150,300	\$150,300	\$0
Second Mortgage Repayment to LBHDC	\$116,700	\$159,300	\$42,600
Total LBHDC Repayment	\$116,700	\$159,300	\$42,600
LBHDC Return Over Investment	(\$33,600)	\$9,000	\$42,600

1486 Henderson and 1495 Chestnut

Construction of the units on these properties has not started. However, it is anticipated that the second mortgage amounts needed for these properties may also be changed once the properties are appraised, and the income of the selected homebuyers are determined.

CONCLUSION

The proposed amendment to the DDA results in deeper affordability and an increased return to the LBHDC. Staff recommends approval of the recommended action.

ET:PU:sm
 R:\LBHDC\Staff Reports\2011\March\3.16.11 First Amendment to the DDA--Habitat.doc

Attachment: October 21, 2009 Staff Report



MEMORANDUM

DATE: October 21, 2009

TO: Board of Directors
The Long Beach Housing Development Company

FROM: Projects Committee

PREPARED BY: Patrick Ure, Housing Development Officer

SUBJECT: Authorization to Enter into a Development and Loan Agreement with Habitat for Humanity Greater Los Angeles and Provide Financial Assistance for the Washington School Housing Action Plan Focus Area Scattered Sites Development (CD 1)

RECOMMENDATIONS

1. Approve a loan of up to \$534,700 to Habitat for Humanity Greater Los Angeles to provide gap financing for the development of the Washington School HAP Focus Area Scattered Sites Development;
2. Authorize the President or designee to negotiate and enter into a Development and Loan Agreement with Habitat for Humanity Greater Los Angeles subject to any Redevelopment Agency and City Council approvals that are required by the California Health and Safety Code; and
3. Authorize the President or designee to execute any and all documents necessary to implement a Development and Loan Agreement.

**MAKING
AFFORDABLE
HOUSING
HAPPEN**

BACKGROUND

In September 2008, Housing Services staff met with Habitat for Humanity Greater Los Angeles (Habitat) to discuss several properties in the Washington School Focus Area that would be appropriate development sites for Habitat's homeownership program. Habitat subsequently submitted a development proposal for the properties at 1486 and 1494 Henderson, 1495 Chestnut, and 1650 Magnolia. A map of the properties is attached.

On April 15, 2009 The Long Beach Housing Development Company (LBHDC) Board authorized the President to enter into an Exclusive Negotiating Agreement with Habitat to give both parties time to define and agree upon the scope and terms of the development.

AGENDA ITEM NO. 3

Mailing Address:
110 Pine Avenue
Suite 1200
Long Beach, CA 90802
Tel 562/570-6949
Fax 562/570-5921

PROJECT DESCRIPTION

Habitat's proposal includes construction of new single-family homes on the Henderson and Chestnut properties, which are currently vacant lots, and rehabilitation of the existing home at 1650 Magnolia. Below is a summary of the proposed development.

Address	Bed	Bath	Unit Size (Sf)	Unit Type
1486 Henderson	4	2	1,300	New Construction
1494 Henderson	4	2	1,500	New Construction
1495 Chestnut	4	2	1,500	New Construction
1650 Magnolia	3	2	1,400	Rehabilitation

Each of the three newly constructed homes will be sold to very-low income first-time homebuyers who live or work in Long Beach and are earning less than 50% of the Los Angeles County Area Median Income (AMI). The rehabilitated unit will be sold to a low-income household earning less than 80% of AMI. The properties will carry long-term income and affordability covenants for 45 years.

Habitat will be the building contractor for the project and will utilize volunteer labor in the construction of the homes. Additionally, the families selected to purchase each new home will be required to contribute 500 hours toward the construction of their home and/or other Habitat homes. The family selected to purchase 1650 Magnolia (rehabilitation unit) will be required to contribute 100 hours towards construction.

All of the homes will be constructed using sustainable materials and environmentally friendly building practices and will incorporate energy savings appliances. It is Habitat's goal that the homes will receive LEED-for-Homes Silver rating and will be at least 10% more efficient than Title 24 requirements.

REQUEST FOR FINANCIAL ASSISTANCE

The projects development costs are estimated at \$1,017,700 or an average of \$254,425 per unit. Habitat anticipates receiving \$483,000 in outside assistance from corporate sponsors, the United States Department of Housing and Urban Development's Self-Help Homeownership Opportunity Program (SHOP), and the Workforce Initiative Subsidy for Homeownership (WISH). Below is a summary of the funding sources.

	Development Cost	Funding Sources			GAP
		SHOP	WISH	Corporate	
1486 Henderson	\$295,900	\$15,000	\$15,000	\$131,000	\$134,900
1494 Henderson	\$311,300	\$15,000	\$15,000	\$131,000	\$150,300
1495 Chestnut	\$311,300	\$15,000	\$15,000	\$131,000	\$150,300
1650 Magnolia	\$99,200				\$99,200
Total	\$1,017,700	\$45,000	\$45,000	\$393,000	\$534,700

The gap between the estimated costs and the available outside assistance totals \$534,700, or approximately \$133,675 per unit. Habitat is requesting that the LBHDC provide the land at no cost, and provide the gap funding in the form of a zero interest development loan for construction.

Habitat is proposing to complete the rehabilitation of 1650 Magnolia and sell the unit to a low-income household using a conventional first mortgage. The affordable price is estimated to be \$117,400. Once the unit is sold to a low-income buyer, the proceeds of the sale will be repaid to the LBHDC. Therefore, the LBHDC will earn approximately \$18,200 from its original investment of \$99,200 ($\$117,400 - \$99,200 = \$18,200$). In addition, the LBHDC will carry a second mortgage note in the amount of the difference between the market sales price at the time of the sale and the affordable price.

Habitat plans to construct a new 4-bedroom home on each of the remaining properties and sell the units to very low-income households using Habitat's typical model, whereby Habitat provides a no interest first mortgage loan in the amount of the affordable sales price. The homebuyer makes payments to Habitat on that loan, and the loan is ultimately repaid to Habitat. The LBHDC will carry a second mortgage note in the amount of the difference between the market sales price at the time of the sale and the affordable price.

The LBHDC second mortgages will be structured as 45-year loans with irrevocable covenants, and the LBHDC loan may roll to subsequent buyers if the units are sold within the 45-year period.

With this structure, and based on estimated market sales prices, the LBHDC may potentially recover \$590,400 in loan repayments ($\$473,000 + \$117,400 = \$590,400$). Since the actual amount recovered will depend on the market sales price at the time of sale, the LBHDC could receive more or less than the estimated \$590,400. The table below provides the details of the estimated sales and repayment transactions.

	Estimated Market Sales Price	Affordable Sales Price	Habitat First Mortgage	LBHDC Second Mortgage	LBHDC Sales Revenue	Total Return to LBHDC
1486 Henderson	\$263,400	\$146,700	\$146,700	\$116,700		\$116,700
1494 Henderson	\$263,400	\$146,700	\$146,700	\$116,700		\$116,700
1495 Chestnut	\$263,400	\$146,700	\$146,700	\$116,700		\$116,700
1650 Magnolia	\$240,300	\$117,400	*	\$122,900	\$117,400	\$240,300
Total	\$1,030,500	\$557,500	\$440,100	\$473,000	\$117,400	\$590,400

* The property at 1650 Magnolia will have a conventional first mortgage, the proceeds of which will be repaid to the LBHDC.

Staff asked Keyser Marston Associates (KMA), economic financial consultant, to review and analyze the developer's proforma. KMA reviewed the developer's cost estimates and found the assumptions to be reasonable and to be within industry standards. KMA also analyzed the funding sources and finds that the financial request of \$534,700 is warranted to make the project feasible.

The Projects Committee reviewed the recommendations included in this report on October 13, 2009, and recommends Board's approval.

ET:PU:sm

Attachment: Map

R:\LBHDC\Staff Reports\2009\October\10.21.09 Financial Assistance and DDA--Habitat.doc

Habitat Scattered Sites

