

M E M O R A N D U M

DATE: November 20, 2019

TO: Board of Directors
The Long Beach Community Investment Company

FROM: Linda F. Tatum, President *lt*

SUBJECT: Approval of a loan amendment and prepayment by 1643 Pacific, LP in conjunction with the sale of Pacific City Lights Apartments located at 1643 Pacific Avenue (CD 1)

RECOMMENDATION:

1. Approve a loan prepayment from 1643 Pacific, LP in the amount of \$2,000,000 as part of the sale of Pacific City Lights Apartments;
2. Approve an amendment to the existing Affordable Housing Loan Agreement;
3. Authorize the President to negotiate a Modification to the Deed of Trust, Fixture Filing, Assignment of Rents;
4. Authorize the President to negotiate an Amendment to the Affordable Housing Regulatory Agreement;
5. Authorize the President to negotiate an Amendment to the Promissory Note;
6. Authorize the President to negotiate an Assignment, Assumption, Consent and Release Agreement including an assignment of all loan documents remaining in effect after the transfer of loan obligations; and
7. Authorize the President to negotiate and execute any and all documents necessary to receive the prepayment and complete the transfer of loan obligations.

DISCUSSION

The Long Beach Community Investment Company (LBCIC), approved a HOME loan of \$3,680,000 to Effective Housing Solutions (Developer) for the development of Pacific City Lights Apartments, which is located at 1643 Pacific Avenue (Project). The Project was completed in July 2007 and contains 42 apartment units, including 5 extremely low, 26 very low, and 10 low-income units. Following the completion of construction, the project

was transferred to PNC Real Estate (PNC). A site map (Attachment A) is attached for reference.

The term of the LBCIC loan and affordability period, is 55 years commencing in May 2008 and terminating in May 2063. The residual receipts loan carries a 5.36% interest rate, except in the case of default by the developer at which time it becomes 10%. To date, the Project's cash flow has not allowed for any payments on the LBCIC loan and the interest has accrued to \$2,956,791 as of November 1, 2019. It is unlikely that the Project will be able to fully repay the LBCIC loan with accrued interest at the end of the 55-year term.

On August 6, 2019, PNC requested approval of the sale of the Project, and assumption of the LBCIC loan and regulatory requirements, to 1643 Pacific, LP, which consists of two general partners, GRCLA-Affordable Holdings, LLC and Korean Health, Education, Information and Research Center (Pacific). Staff immediately began to collect a lengthy list of due diligence items from both PNC and Pacific related to the Project's current and proposed financials and Pacific's ability to effectively own and operate the Project. Simultaneously, Pacific was in the process of purchasing several other affordable housing projects from PNC throughout California.

On September 27, 2019, during the due diligence period, staff learned that the project was transferred to Pacific the day before, without LBCIC approval or documentation. Per the Purchase and Sale Agreement, the Project was purchased for \$100,000 and the assumption of all Project debt and related requirements. Staff immediately contacted the first trust deed holder, California Community Reinvestment Corporation (CCRC), who was also not aware of the transfer of the Project. CCRC had also been working with PNC and Pacific but was expecting their loan to be fully paid upon transfer, in the amount of about \$2,000,000 including principal and interest. The unauthorized transfer triggered a default of both the CCRC and LBCIC loans. Staff remained in regular contact with CCRC as well as Pacific, and Pacific was made aware that the LBCIC and CCRC are working in partnership to bring the situation to satisfactory resolution.

Pacific is now approved for a new first mortgage loan for the Project in the amount of \$3,200,000 and plans to pay off the CCRC loan in full. Based on the Project's cashflow and appraised value of \$3,575,000, the Project cannot support a larger first mortgage loan. In addition to the repayment of the CCRC loan, Pacific is proposing to repay \$2,000,000 of principal on the LBCIC HOME loan and carry the remaining LBCIC loan balance of \$1,680,000 as a silent second mortgage, which would be subordinate to the new first mortgage loan. To do this, Pacific is proposing to provide a \$900,000 equity contribution, and is requesting forgiveness of the accrued interest on the LBCIC loan. In addition, Pacific is requesting that the remaining loan be modified to provide for no payments or interest and a reduced maturity date to 30 years from now. This structure will result in a 14-year reduction to the loan term and a balloon payment in December 2049. The Affordable Housing Regulatory Agreement will remain recorded against the property, and the 41 units will remain affordable until the end of the 55-year term (May 2063).

The Long Beach Community Investment Company

Jun 27, 2018

Page 2

This project refinance will allow the existing affordability structure to remain in place, and will provide the LBCIC with the opportunity to use the \$2 million HOME loan repayment to fund additional affordable housing units that are desperately needed now. Staff is recommending approval of the loan prepayment and amendment to the Loan Agreement.

SUGGESTED ACTION:

Approve Recommendation.

Attachment:

A. Site Map

LFT:PU:MS

R:\LBCIC\Staff Reports\2019\November\Lyon West Gateway Loan Repayment.doc