



Staff Report

File #: 16-048
Version: 1

Date: 6/6/2016
Item #: g.

TO: Chair and Housing Authority Commissioners

THROUGH: Steve Powers, Executive Director

FROM: Andrew Wilch, Administrator

SUBJECT:

Englewood West Apartments re-finance and bond issuance

Ward(s): All Wards

Commissioners(s): All Commissioners

Neighborhood(s): All Neighborhoods

ISSUE:

Shall the Housing Authority Commission adopt Resolution No. 2189 authorizing the issuance of bonds pursuant to ORS Chapter 456 to refinance the outstanding debt for Englewood West Apartments in an amount not to exceed \$600,000 and further, delegate authority to the Executive Director or designee to execute the loan proposal and all other necessary documents and actions, as set forth in this resolution, to refinance the Englewood West Apartments debt with Columbia Bank?

RECOMMENDATION:

Adopt Resolution No. 2189 (Attachment 1) authorizing the issuance of bonds pursuant to ORS Chapter 456 to refinance the outstanding debt for Englewood West Apartments in an amount not to exceed \$600,000 and further, delegate authority to the Executive Director or designee to execute the loan proposal and all other necessary documents and actions, as set forth in this resolution, to refinance the Englewood West Apartments debt with Columbia Bank.

SUMMARY AND BACKGROUND:

Englewood West Apartments is a Housing Authority (SHA) owned, 54 unit rental housing property for seniors 62 years and older, located at 1068 Park Avenue NE. in Salem. The rental unit occupancy is consistently at 98 percent with a unit or two typically vacant at any one time.

SHA developed the property in 1992 utilizing 9% Low Income Housing Tax Credits, private debt and City allocated Community Development Block Grant funds. The 15 year tax credit partnership was extinguished in 2007 when SHA became the sole owner.

The original loan of \$1,146,000 dated December 19, 1991 was provided by First Security Bank, which was later purchased by Wells Fargo Bank. This loan was re-financed with Wells Fargo Bank in the amount of \$670,000 on August 29, 2010. The new loan term included a 7 year term, amortized over 20 years and due and payable in full on September 5, 2017, with a remaining principal balance of \$428,165.22.

SHA staff solicited four different lenders to provide loan proposals (Exhibit A to the Resolution) for the proposed refinancing of the Englewood West apartments: Key Bank, U.S. Bank, Wells Fargo Bank, and Columbia State Bank.

Key Bank and U.S. Bank were not able to provide financing options and declined to submit proposals. Wells Fargo is the current loan holder of Englewood West's tax exempt loan but cannot issue tax exempt bond financing outside of Utah. Wells Fargo offered a loan proposal using conventional interest rates, which are higher than tax exempt bond rates. Columbia Bank was the only respondent to the loan proposal able to offer tax exempt bond interest rates as well as not require full faith and credit as security (loan collateral is the property only) .

Columbia Sate Bank also currently holds the loan for Southview Terrace Apartments as a tax exempt financed property. Columbia State Bank has provided the attached Loan Proposal as the basis for the refinance (Exhibit B of the Resolution).

FACTS AND FINDINGS:

SHA owns and operates Englewood West as housing for seniors. The permanent mortgage on the property is due and payable on September 5, 2017, with an outstanding principal balance as of September 5, 2017 of \$428,165.22. Due to rising interest rates, it is recommended that the loan be refinanced prior to the due date to utilize the current lower interest rates.

Columbia State Bank has provided a loan proposal setting forth the loan terms and conditions for providing a new loan. Staff has reviewed and discussed the loan proposal with the Bank and believes the proposed loan terms are fair and reasonable in the market place relative to the other SHA lender proposals. The proposed refinance includes the issuance of a Bank qualified, tax exempt bond that would be placed directly with Columbia State Bank. The key terms of the proposed loan are as follows:

Loan Type: Non-recourse real estate loan

Amount: Up to \$600,000

Maturity: At the borrower's options, the following terms are offered:

- **15-year fully amortized term loan (estimated monthly payment \$4,037.56),** or
- 10-year term/20-year amortization with balloon payment (estimated monthly payment \$3,185.27)

Rate: Tax-exempt bank qualified fixed rate as follows:

- **15-year fully amortized - at 2.63%** or
- 10-year term/20-year amortization with balloon payment - at 2.52% (balloon estimate of

\$337,562.21)

Collateral:

- First Deed of Trust along with assignment of all rents on the property known as Englewood West, along with entitlements and any other documentation and contracts. As a condition of this loan, an appraisal will be required, and must support a maximum LTV (Loan to Value) of 40%.
- First priority pledge of loan proceeds until spent.
- First priority pledge of the Replacement Fund for the Englewood West Project Property.
- First priority pledge of the Operating Fund for the Englewood West Project Property.
- General assignment of Rents.

Most terms in the loan proposal are fixed in nature; however, Columbia State Bank has provided options for the term of loan and the loan interest rate. All Bank provided options on term and interest rates have been reviewed and analyzed by the Bank and SHA staff and are viable loan structures for the property.

Staff recommends the 15-year fixed term amortization option - at 2.63% (estimated monthly payment of \$4,037.56). This option is bolded in the key terms above. This option has a lower monthly debt payment than the current monthly mortgage payment of \$5,176.84 and that allows more project revenue to flow to the project reserves for capital and maintenance improvements as well as completely pay off the remaining debt. The 10 year loan/20 year amortization would leave a balance due of \$337,562.21 after the ten year loan expiration that would have to be refinanced at that time.

At execution of the loan proposal, SHA must provide a check in the amount of \$5,000 to start the appraisal process. The Bank is proposing a loan fee of .60% of the commitment amount, and a not to exceed \$3,000 fee for the Bank's attorneys to review the loan. Further, in the event SHA would seek to use the property as collateral for another loan (not anticipated), the Bank's loan is required to remain in first position. The new loan would also contain the estimated cost of a new roof and air conditioner units (\$100,000). These and other transaction costs will be rolled into the new loan up to a total loan amount not to exceed \$600,000.

The loan proposal states an expiration date of June 18, 2016, if not signed and returned prior to that date.

Andrew Wilch
Housing Administrator

Attachments:

1. Resolution 2189
2. Exhibit A
3. Exhibit B

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