

January 14, 1999

TO: The County Board of Arlington, Virginia

FROM: William T. Donahue, County Manager

SUBJECT: Retirement Housing Foundation (RHF) Request for County Loan Subordination to facilitate a Refinancing of the Carlin Apartments.

RECOMMENDATION:

1. Authorize the County Manager, and direct the Trustees to execute a Deed of Subordination, and other related contract amendments, to subordinate the County's HFC/HOME Deed of Trust to new permanent financing, as detailed in the staff report for the property located at 4300 North Carlin Springs Road, subject to the County Attorney's review and approval of the form of the Subordination Agreement.

2. Authorize the County Manager, with the concurrence of the County Attorney, to act as the County Board's representative in approving financing and program revisions that are necessary to remove any ambiguity or inconsistency or which improves the County's financial security or financial position, and which changes do not adversely affect the County financially prior to execution of the above-referenced financing documents.

BACKGROUND: In September 1994, the County Board approved a loan of \$969,300 of federal HOME funds to assist in the development of a 162 unit affordable apartment building for elderly residents at 4300 North Carlin Springs Road. This project was sponsored by RHF, a developer of affordable elderly housing facilities, with 124 projects in 23 states containing 12,000 units.

The Carlin was originally financed through a conventional fixed rate first trust 30 year mortgage loan of \$6,630,000 provided by the Washington Mortgage Financial Group (WMFG) and guaranteed by the Federal National Mortgage Association (FNMA). Construction financing was provided by an additional loan from NationsBank in the amount of \$3,949,000. The NationsBank loan was intended as a bridge loan until all the equity funds were received from sale of

Staff: Douglas Peterson, Office of Housing Development

Wayne Rhodes, Office of Housing Development

Reviewed By the County Attorney:

Low Income Housing Tax Credits. The County loan, as approved by the Board, was subordinate to both of these initial loans.

Due to construction delays and slow lease-up of the property, RHF was unable to proceed with the sale of the low income housing tax credits to pay off the NationsBank loan. In order to meet the schedule for the construction loan repayment and improve project stability, RHF secured a short-term loan from the Sumitomo Bank of California in the amount of \$6,430,000 to consolidate the Carlin's financing. RHF was then able to pay off the original WMFG/FNMA and NationsBank loans through the bridge loan from

Sumitomo Bank. Before the end of the term of the bridge loan from Sumitomo Bank, RHF and the Carlin Limited Partnership (CLP) were to have arranged for permanent financing either from a sale of taxable variable rate bond proceeds or permanent bank financing. Previous Board action specified that any new subordination would not exceed \$6,750,000.

Since that time, two factors, lower interest rates and increased project occupancy, have changed which has allowed RHF and the CLP to modify their refinancing direction. With interest rates in the low 7 percent range, RHF has been able to secure a commitment for a conventional 30-year mortgage loan from WMFG. In addition, FNMA has agreed to guarantee the project since the occupancy has been

consistently above 90% occupied for the past six months. Approval of this subordination will return the original parties to the first mortgage position with a maximum loan amount of \$6,750,000, with the County loan taking a second position.

Staff supports the subordination of the County loan to the planned long-term financing, as detailed above. County approval is subject to review and approval of all subordination and closing documents.

FISCAL IMPACT: The proposed refinancing does not require any additional County funds. The refinancing will facilitate the repayment of the County Residual Receipts loan.