



**MARIN COUNTY
COMMUNITY DEVELOPMENT AGENCY**

ALEX HINDS, DIRECTOR

June 13, 2006

Board of Supervisors
County of Marin

SUBJECT: Subordination Agreement for Community Development Block Grant (CDBG)
Financing for the Hilarita Apartments, 100 Ned's Way, Tiburon

RECOMMENDATIONS: Authorize President (1) subject to County Counsel review, to execute Subordination Agreement to enable The Hilarita-Tiburon Ecumenical Association to refinance the Hilarita Apartments with a new loan from PNC Multifamily Finance, Inc. in the amount of approximately \$8,993,800, and (2) subject to County Counsel review, to execute any related documents that may be required for the refinancing.

SUMMARY: The Hilarita Apartments, a 102-unit subsidized apartment complex, was originally developed by a limited partnership consisting of a nonprofit organization (Tiburon Ecumenical Association) and several for-profit investors. Under the original terms of the partnership, after the project's 20th anniversary in 1995, the for-profit limited partners would have been able to force a sale of the project, pay off the federally-insured mortgage, raise rents to market levels, and displace the low-income tenants. In 1995, with federal "Preservation Program" financing, Tiburon Ecumenical Association was able to convert the project to completely nonprofit ownership, eliminating the risk of conversion to market-rate housing. In conjunction with the conversion to entirely nonprofit ownership, a new nonprofit corporation, The Hilarita-Tiburon Ecumenical Association, was formed to serve as the owner of the project. Community Development Block Grant (CDBG) funds were used for pre-application expenses needed to obtain major acquisition and rehabilitation funding from the federal "Preservation Program." Additional CDBG funds were used for rehabilitation of the project.

In 1995, acquisition and preservation of the Hilarita was financed with a federally-insured \$9 million loan with a fixed interest rate of 7.125%, and a term of 40 years. The CDBG funding for the Hilarita was subordinated to that loan. The project sponsor now proposes to replace that loan with a new loan from PNC Multifamily Finance, Inc. with a principal of approximately \$8,993,800, a fixed interest

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rate of 5.19% and a term of 29 years (equal to the remaining term of the old loan). With the new loan, annual loan payments will drop from \$688,048 per year to \$600,525 per year, and the mortgage insurance premium will also be reduced. The new loan will be enough to fully repay the old loan, pay fees and closing costs for the new loan, and provide \$265,445 for repairs to the building. The project sponsor will save over \$87,000 per year in loan payments, which can be used towards maintaining the building.

PNC has agreed to make the new loan if the County agrees to subordinate its CDBG financing to the PNC loan, as the County did for the loan that PNC will replace. It has been the County's practice that financing provided by the County may be subordinated in order to make it possible for non-profit developers to obtain loans from financial institutions.

FISCAL IMPACT: Because the County's contribution to this project is in the form of federal CDBG funds, there is no financial impact on County general funds. The reduction in interest rate and loan payments will enable the project sponsor to have more funds available for maintaining the building.

REVIEWED BY:

<input type="checkbox"/>	Auditor Controller	<input checked="" type="checkbox"/>	Not Applicable
<input checked="" type="checkbox"/>	County Counsel	<input type="checkbox"/>	Not Applicable
<input type="checkbox"/>	Human Resources	<input checked="" type="checkbox"/>	Not Applicable

Comment: (standard contract form)

Roy Bateman
Community Development Coordinator