

THE CALIFORNIA DEBT LIMIT ALLOCATION COMMITTEE

November 18, 2009

Consideration of an Issuance Period Extension for Brookwood Terrace Apartments and Orvieto Family Apartments to December 31, 2009
(Agenda Item No. 4)

ACTION:

Approve the extension of the issuance expiration date to December 31, 2009 for July 22, 2009 CDLAC allocation recipients Brookwood Terrace Apartments and Orvieto Family Apartments so that they may participate in the recently announced Multifamily Credit Enhanced Bond program (the "GSE Bond Program").

BACKGROUND:

The GSE Bond Program is a one-time opportunity authorized under the Housing and Economic Recovery Act of 2008 (HERA) that is anticipated to produce significant economic and structural benefits to both Single Family and Multifamily Credit Enhanced Bonds issued by state and local housing finance agencies nationwide. The GSE Bond Program's specific benefits for these two projects are:

- **Economic Benefits.** 80 basis points lower mortgage loan rate than the traditional Freddie Mac approach in the current market for both projects according to the permanent lender. The lower permanent borrowing cost will increase the combined permanent bond amount and reduce the combined gap loan commitment needed from the City of San Jose by more than \$1 million for the two projects. The reduction in needed public subsidy will free up City funds that could help subsidize other affordable housing projects in San Jose. The financial pressures on redevelopment agencies caused by the need to balance the State Budget heighten the importance of stretching very scarce public dollars used to assist affordable housing.
- **Structural Benefits.** The new program will eliminate certain complications associated with the Freddie Mac variable rate bond structure. During construction the interest rate on the variable rate bonds will be set by reference to the SIFMA index rather than by a remarketing agent. Liquidity risks thereby eliminated--an attractive proposition given the problem with the bond remarketing that occurred last year during the financial crisis. During the permanent loan period, the fixed rate is established via a fixed rate bond rather than synthetically through a swap. Removing the need for a derivative product while still locking in a fixed rate also reduces some of the deals' underwriting complexity and reduces risk to the involved parties.

DISCUSSION:

On July 22, 2009, CDLAC awarded allocation to the Brookwood Terrace Apartments and the Orvieto Family Apartments. According to CDLAC procedures, these projects were given a deadline to issue no later than November 30, 2009. In an effort to provide these projects adequate time to take advantage of the GSE Bond Program and finalize project financing, staff recommends the Committee **extend the current issuance deadline to December 31, 2009**. This is the latest date allowed under IRS tax code for projects not awarded allocation on a carry-forward basis in 2009.

If the GSE Bond Program does not materialize as projected by December 4, 2009, the Applicant will abandon the alternative path and proceed as originally planned – and, if necessary, seek

another extension from the Committee to issue bonds by the end of January 2010, in accordance with the original plan of finance.

RECOMMENDATIONS:

Staff recommends the approval of an extended issuance expiration date of December 31, 2009 for the following projects:

09-082 Brookwood Terrace Apartments

09-083 Orvieto Family Apartments.

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