



## CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE

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### MEMBERS

BILL LOCKYER, CHAIRMAN  
State Treasurer

JOHN CHIANG  
State Controller

MICHAEL COHEN  
Director of Finance

**EXECUTIVE DIRECTOR**  
William J. Pavão

**DATE:** April 29, 2014  
**TO:** California Low Income Housing Tax Credit Stakeholders  
**FROM:** William J. Pavão, Executive Director  
**SUBJECT:** California Tax Credit Allocation Committee Subordination Policy

The California Tax Credit Allocation Committee (CTCAC or the Committee) routinely records regulatory agreements against an affordable rental housing development's title or, occasionally, against a leasehold interest in a given tax credit property. These regulatory agreements legally notice all future buyers and lienholders that the property is encumbered by a covenant with CTCAC for a 55-year term.

The Committee's regulatory agreement is recorded following a project placing in service and, adhering to the "first-in-time, first-in-line" principal of recordation, CTCAC's regulatory agreement is typically junior to most other lenders' Deeds of Trust. Where a permanent lender records after CTCAC's regulatory agreement is recorded, CTCAC regularly subordinates its regulatory agreement to the newly-arriving permanent debt Deed of Trust.

Nothing in this memorandum changes CTCAC's practices as described above.

### Refinancing:

The Committee has experienced a substantial volume increase in requests to subordinate its recorded regulatory agreement where a project is being sold after the 15-year credit compliance period. These sales occasionally also involve rehabilitating the project, and even re-syndicating and requesting a new allocation of credits.

The Committee has become increasingly concerned about new Deeds of Trust securing large debt loads against the property. Frequently, much of the new debt is attributable to a large payment to the property seller. Occasionally, the transaction does not involve a sale at all, and the new debt is simply refinancing existing debt and pulling equity out of the project.

The Committee's willingness to subordinate its regulatory agreement leaves the property with a large encumbrance while no benefit per se accrues to the low-income residents in such cases.

### Policy:

Effective immediately, the Committee is implementing a moratorium on subordinating existing regulatory agreements to acquisition or refinancing debt. The Committee concludes that neither the property residents' nor the public's interest is served by encumbering tax credit projects in this way.

Following the initial permanent financing subordinations, CTCAC would only subordinate to new Deeds of Trust for rehabilitation loans, or FHA-insured loans.

Tax credit property buyers are welcome to record Deeds of Trust against title in a position junior to CTCAC's regulatory agreement. This adheres to the first in time, first in line principal and causes the lender to acknowledge the property's regulated status for the remainder of the regulatory agreement term.

Finally, CTCAC is amenable to executing the attached "stand-still" agreement with lenders. This agreement would permit the acquisition or re-financing lender 60 days to work with the project owner to remedy any breach of CTCAC's regulatory agreement before CTCAC implements any of the remedies described within the CTCAC regulatory agreement.

Attachment

**RECORDING REQUESTED BY:**

\_\_\_\_\_ (Lender)

**WHEN RECORDED RETURN TO:**

\_\_\_\_\_ (attorney)

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SPACE ABOVE LINE FOR  
RECORDER'S USE

**STAND STILL AGREEMENT**

**(CA-        -        )**

THIS STANDSTILL AGREEMENT (this "Agreement") is made as of the        day of  
, 20        by and among        ("Borrower"),        ("Lender"), and the **CALIFORNIA  
TAX CREDIT ALLOCATION COMMITTEE**, a public body ("CTCAC").

**RECITALS:**

A.        Borrower is the Owner of that certain real property located in the County of        ,  
State of California, as more particularly described on Exhibit A attached hereto (the "Property").

B.        Borrower is refinancing a multi-family housing development on the Property; the  
Property and the improvements constructed on it are referred to in this Agreement as the "Project".

C.        ("Original Owner"), Borrower's predecessor in interest as the owner of the  
Project, received from CTCAC, as the state housing credit agency for the State of California, a  
reservation of low-income housing tax credits ("Original Tax Credits") for the Project.

D.        Original Owner and CTCAC entered into that certain Regulatory Agreement dated  
as of        , which sets forth certain use restrictions affecting the Project (the "Regulatory  
Agreement"), which Regulatory Agreement was recorded in the        County Recorder's Office  
("Official Records") on        , as Instrument Number        , as required by Section 42 of the  
Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder  
(collectively, "Section 42"). Borrower has assumed Original Owner's obligations under the  
Regulatory Agreement pursuant to that certain Assignment and Assumption Agreement dated  
, 20        , and recorded in the Official Records concurrently herewith.

E.        Lender has made a loan to Borrower [enter financing information required by lender].

i. [enter financing information required by lender]

F. Section \_\_\_\_\_ of the Regulatory Agreement, which addresses the remedies of CTCAC, does not comply with the \_\_\_\_\_ (entity) Requirements.

G. As a condition to making the Loan, Lender requires that CTCAC not exercise remedies under the Regulatory Agreement for a 60 day period following notice to the Lender. Lender will not make the Loan unless CTCAC and Borrower agree to this Agreement.

H. Borrower and CTCAC hereby agree to the stand still provisions set forth in this Agreement.

**NOW, THEREFORE**, in consideration of the mutual benefits accruing to the parties hereto and other valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties agree as follows

1. Recitals. The foregoing Recitals are hereby incorporated into this Agreement as agreements among the parties.

2. Stand Still/Cure Period. CTCAC shall not exercise any remedies under Section \_\_\_\_\_ of the Regulatory Agreement until the expiration of a 60 day period (the "Stand Still Period") following Lender's receipt from Borrower of notice of a default under the Regulatory Agreement. Lender shall have the right, but not the obligation, to cure a default under the Regulatory Agreement during the Stand Still Period.

3. Notice.

(a) Process of Serving Notice.

All notices under this Agreement shall be:

(1) in writing and shall be:

(A) delivered, in person;

(B) mailed, postage prepaid, either by registered or certified delivery, return receipt requested;

(C) sent by overnight courier, or

(D) sent by electronic mail with originals to follow by overnight courier;

(2) addressed to the intended recipient at the address(es) below the signature block, as applicable; and

(3) deemed given on the earlier to occur of:

(A) the date when the notice is received by the addressee; or

(B) if the recipient refuses or rejects delivery, the date on which the notice is so refused or rejected, as conclusively established by the records of the United States Postal Service or any express courier service.

(b) Change of Address.

Any party to this Agreement may change the address to which notices intended for it are to be directed by means of notice given to the other parties identified in this Agreement.

(c) Receipt of Notices.

Lender, CTCAC or Borrower shall not refuse or reject delivery of any notice given in accordance with this Agreement. Each party is required to acknowledge, in writing, the receipt of any notice upon request by the other party.

(d) Addresses for Notices

If to Borrower:

If to Lender:

To CTCAC: California Tax Credit Allocation Committee  
901 P Street, Suite 213A  
Sacramento, CA 95814  
Attn. Executive Director

4. Entire Agreement. This Agreement represents the entire understanding and agreement between the parties hereto and shall supersede and cancel any prior agreements with regard to this subject matter.

5. Binding Provisions. The covenants and agreements contained in this Agreement shall be binding upon the heirs, personal representatives, successors and assigns of the respective parties to this Agreement.

6. Applicable Law. This Agreement shall be governed by and construed in accordance with the laws of the State of California.

7. Amendment. This Agreement may not be modified orally or in any manner other than by an agreement in writing signed by the parties hereto or their respective successors in interest.

8. Further Instruments. Each of the parties hereto will, whenever and as often as they shall be requested to do so by the other, execute, acknowledge and deliver, or cause to be executed, acknowledged or delivered, any and all such further instruments and documents as may be reasonably necessary to carry out the intent and purpose of this Agreement, and to do any and all further acts reasonably necessary to carry out the intent and purpose of this Agreement.

9. Legal Action. In the event any legal action is commenced by any party hereto concerning this Agreement or the rights and duties of any party hereto, whether such action be an action for damages, or for equitable or declaratory relief, the prevailing party in such litigation shall be entitled to, in addition to all other relief as may be granted by the court, reasonable sums as and for attorneys' fees in an amount to be set by the court.

10. Valid Authorization. Each person executing this Agreement on behalf of a party hereto represents and warrants that such person is duly and validly authorized to do so on behalf of such party with full right and authority to execute this Agreement and to bind such party with respect to all of its obligations hereunder.

11. Counterparts. This Agreement may be executed in counterparts each of which shall be deemed an original and all of which when taken together constitute one and the same instrument, binding on all of the parties. The signature of any party to any counterpart shall be deemed a signature to, and may be appended to, any other counterpart.

**[DOCUMENT EXECUTION OCCURS ON THE FOLLOWING PAGES]**