

**HOUSING FINANCE COMMITTEE**  
**MARCH 17, 2010**  
**Staff Report – Agenda Item 4 through 7**

**BACKGROUND**

The Department of Housing and Community Development (HCD) administers various housing bond programs which have been authorized pursuant to Propositions 46 and 1C. A major component of HCD's responsibilities is to fund Multifamily Housing Program (MHP) loans to sponsors of affordable multifamily housing projects throughout the state at favorable rates and on favorable terms. These MHP loans, which are often funded at the time a project has completed construction and "converts" to permanent financing (conversion loans), are crucial to the financing of many affordable housing projects, and are the basis on which construction lenders have historically been willing to make construction loans for projects. As a result of the State's inability to sell general obligation bonds between July 2008 and March 2009 and the suspension of Pooled Money Investment Account loans at the end of 2008, construction lenders have been unwilling to make construction loans based on an HCD loan commitment unless HCD has cash on hand that is reserved to fund the permanent loan. HCD's loans are often not needed for more than two years after the date of their loan commitment. The program described below has been developed to induce one or more private lenders to recommence making MHP construction loans backed by HCD commitments.

**PROGRAM DESCRIPTION**

As described above, the main purpose for implementing the Housing Bond Private Placement Option Program (Option Program) is to entice private lenders to fund MHP loans. However, to the extent that private lenders are willing and able, and where the lender is entering into an Option Agreement on an MHP conversion loan, construction draw-down loan and grant programs including the Transit Oriented Development Housing Program, the Infill Infrastructure Grant Program, the Joe Serna, Jr. Farmworker Housing Grant Program, the Governor's Homeless Initiative Program, the Homeless Youth Program, and the Supportive Housing Program (these programs, as well as the MHP, are collectively referred to as an "HCD loan") may also be funded by the Option Program.

The following is a summary of the Option Program:

- The State Treasurer's Office (STO), HCD, and a private lender will enter into an Option Agreement giving the private lender an option, with respect to a specific multifamily rental housing project (Project), to purchase directly from the State a general obligation bond in the amount of the HCD loan committed to the Project.
- This option may be exercised by the private lender if and when conditions to funding the HCD loan are met, but no funds are on hand to fund the HCD loan. To the extent that a construction draw-down loan and/or grant is included in the Project, the private lender must agree to provide bridge financing during the construction since the option may only be exercised at the time of project "converts" to permanent financing.

- Upon exercise of the option, the STO and private lender enter into a Bond Purchase Contract (similar to those used for prior private placement transactions) to issue bonds to the private lender.
- Funds from the private placement bond issuance would be used to fund the HCD loan.
- Upon issuance of the private placement bonds, the State will agree to sell publicly offered bonds as soon as possible to retire the private placement bonds.

Although the intent of STO, HCD and Department of Finance (DOF) is to have funds on hand to fund the HCD loan at the time a Project “converts” to permanent financing (so that the option will never have to be exercised), this Option Agreement will provide comfort to private lenders to once again make construction loans. While this program may be desirable to some private lenders, other lenders may not have the resources or ability to utilize the program. In addition, individual Projects will need to be evaluated on a case by case basis by STO and HCD in order to determine the appropriateness of utilizing the program.

STO, HCD and DOF will work together to implement the Option Program, develop appropriate administrative procedures and oversight and provide outreach to potential private lenders.

### **RECOMMENDATION**

Staff recommends the Housing Finance Committee (Committee) approve agenda items four and six which will authorize the Option Agreement as a pilot program in the amount of up to \$100 million for Proposition 46 and \$250 million for Proposition 1C, respectively. Staff also recommends the Committee approved agenda items five and seven which will authorize the issuance of refunding bonds should the option on a specific Project be exercised in the future.

Staff notes that as a pilot program, STO, HCD, and DOF reserve the right to re-evaluate the feasibility of the Option Program once it has been implemented to determine the effectiveness and evaluate potential staff workload constraints. To the extent the pilot program is successful, staff will return to the Committee to seek additional funding authorization.