

**Item Title:** Subordination and Amended Terms of an Affordable Housing Loan for The Sussex in Raleigh, NC

**Specific Action Requested:**

**That the Board of Commissioners approves a subordination request and amendment to the loan terms from an amortizing to cash flow repayment schedule for The Sussex, an affordable rental development to be located in Raleigh, NC, subject to terms and conditions acceptable to the County Attorney.**

**Item Summary:**

**Purpose:** The Board of Commissioners approves all Wake County real estate transactions.

**Background:** In May 2020, the Board of Commissioners approved a loan of \$2,800,000 to Volunteers of America to develop The Sussex, a 216-unit affordable family development in Raleigh, NC. The Board approved the County loan to be in second lien position behind a \$28,400,000 loan from Prudential, the amount of which is tied to the bond volume issued by the North Carolina Housing Finance Agency. Due to the ratio of requested bond volume to total development costs, NCHFA will only issue \$26,100,000, limiting the first mortgage amount. Prudential will use a second, \$2,300,000 loan to fill the gap. Prudential is requiring the County to subordinate its loan and take third lien position.

In addition, the mortgages from Prudential will be a Freddie Mac product which offers developers more favorable terms but requires subordinate debt to limit its repayment to 75% of proceeds remaining after first mortgage debt service. The use of this product will require the County to amend the approved amortizing repayment loan to a cash flow loan. Staff have reviewed the proposed proforma which demonstrates sufficient cash flow to offer County repayment similar to previously agreed upon terms.

**Board Goal:** This Board action directly supports the Board's desire to implement the Wake County Affordable Housing Plan in the Social and Economic Vitality goal area.

**Fiscal Impact:** The Board previously appropriated funds for these proposals in the Housing Affordability and Community Revitalization Special Revenue Fund and the Housing Affordability and Community Revitalization CIP Fund. This action has no additional fiscal impact.

**Additional Information:**

In May 2020, the Board of Commissioners approved a loan of \$2,800,000 to Volunteers of America (VOA) to develop The Sussex, a 216-unit affordable family development in Raleigh, NC. The Board approved the County loan to be amortizing at 1% interest and in second lien position behind a \$28,400,000 loan from Prudential, the amount of which is tied to the bond volume issued by the North Carolina Housing Finance Agency (NCHFA).

On October 27<sup>th</sup>, 2020, Housing staff were informed by Stuart Law Firm that due to the ratio of the requested bond cap volume to total development costs for The Sussex, NCHFA will only issue \$26,100,000 in bond volume. As a result, the Prudential loan in first position is capped at \$26,100,000. The volume of this loan cannot be increased. VOA determined that the \$2,300,000 gap could be filled with a “taxable tail” in that amount, in the form of a second loan from Prudential. Prudential is requiring that the County subordinate its loan to this second loan and take third lien position.

While the County would be taking a lower position, it will be in the same position financially as when the loan was originally approved. The first and second mortgages total \$28,400,000, equal to the original first mortgage amount. Should the property face foreclosure, the first two loans would be foreclosed upon together.

The first and second loans are being financed by Freddie Mac. Freddie Mac requires that subordinate debt service be limited to 75% of surplus cash, meaning cash left over after senior debt service. This requirement appears in the Subordination Agreement for the County’s loan. The current repayment schedule for the County’s loan adheres to this limit. However, should there be future cash flow problems, the County’s annual debt service may be lower than what appears in the repayment schedule.

**Attachments:**

1. Site Map
2. Commitment Letter
3. Subordination Agreement