ATTACHMENT B

Memorandum:

To: LACMTA
Cal Hollis
Marie Sullivan

From: Ann Sewill, California Community Foundation
Cecile Chalifour, Low Income Investment Fund
Jacqueline Waggoner, Enterprise Community Partners

Date: December 2, 2015

RE: DRAFT Preliminary Lending Products of a Transit Oriented Communities Loan Program

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I. Program Overview

This memo intends to describe the purpose and products of a Transit Oriented Communities Loan Program (TOCLP or Program), which would encourage the production and preservation of affordable homes within a half mile of a station or stop in a high quality transit area (HQTA) as defined by the State of California Office of Planning and Research (OPR), including future stations or stops anticipated to be completed within the next 10 years. Program funds from Metro and foundations' Program Related Investments (PRI) will leverage capital from participating Community Development Financial Institutions (CDFIs). The Program would offer two loan products which would support the production and preservation of affordable homes: (a) Predevelopment Loan Product and (b) Preserving and Expanding Affordability Loan (PEAL) Product. The Predevelopment Loan Product would be for new projects with site control with an achievable strategy and schedule of milestones for securing needed financing. The PEAL Product is meant to help affordable housing developers purchase and hold multifamily properties for preservation and eventual expansion of the number of affordable units. Additional details are outlined below.

II. Program Participants and Timing

In addition to Metro's contribution of $9.5MM, we are anticipating philanthropic contribution of PRI capital of $10.5MM for a total program of $20MM. These funds would be leveraged by CDFIs for a total goal of $53MM-$95MM. Local and national foundations have expressed interest in participating in the program, including but not limited to the California Community Foundation and the California Endowment.

The Metro Board of Directors has currently approved a commitment of $9.5MM over the next 5 years in equal annual contributions through annual budget appropriations. Spreading the deployment of capital contributions over time would significantly impact the deployment of the program overall. Metro will need to fund its prorata share of each loan at time of closing; because of the uncertain nature of annual appropriations, other program participants could not bridge Metro's participation. It would mean reducing the ability to preserve and produce affordable housing at the onset of the program. As land prices around transit increase over time, future project costs would be more expensive, increasing the overall cost of development. As the development timeline can vary significantly for any given project, having fewer loans originated early in the program term means the program will deliver completed units much later, and at higher cost, than if deployment is front-loaded.

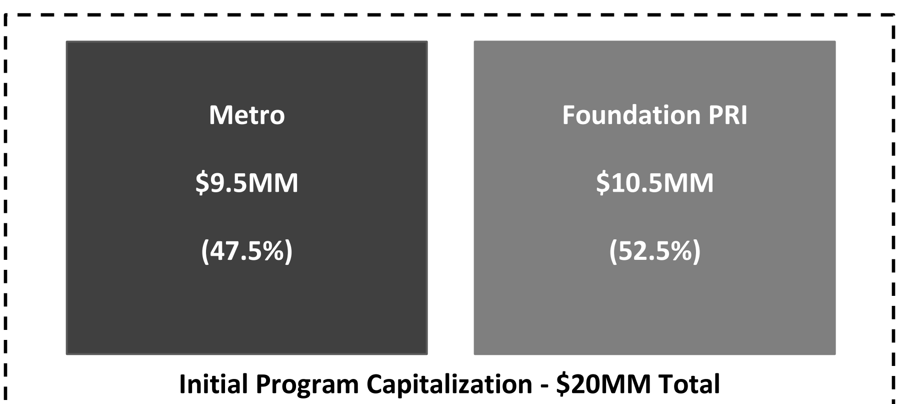
Ideally, the Program would launch with a total contribution of $20MM at closing, including the full extent of the Metro board's commitment of $9.5MM within the first 3 years. This would facilitate a three year initial origination period to deploy 100% of program capital, with an overall 13-year Program, as detailed below. The Program is anticipated to be deployed through approximately 10-15 initial loans, and revolve as loans are repaid. Based upon past experience, three years is a reasonable expectation for full capital deployment; however it could be possible to exhaust program funds even faster, given the right market conditions if 100% of Program funds were available at Program launch.

III. Preliminary Program Structure

Metro/PRI Contribution

- $20MM total contribution, including $10.5MM PRI capital and $9.5MM from Metro, for a leverage ratio of roughly 1:1. An additional $33MM to $75MM in CDFI funds is anticipated to be leveraged.
- Metro and PRI funds will be pari passu
- Metro/PRI Program funds will be held by the California Community Foundation, at no charge
- Fund Management and Servicing Fee to be determined
- At the project level: No fees and 1% interest rate

Figure 1. Initial Program Capitalization



Overall Program Funding through CDFI Leverage:

- The Metro/PRI contribution will leverage between $33MM and $75MM in CDFI funds. The overall program amount will vary depending upon the pro-rata share of deals closed under each product, as they have different leverage, as well as the loan size of the PEAL loans
- Total overall Program size of $53MM to $95MM
- Predevelopment Loan product allocation – 25% (5-8 loans)
- PEAL product allocation - 75% (5-12 loans)
- Allocation of funds between the two products might be modified, depending on deployment with approval of the program funders (Metro and the foundations)
- If additional PRI funds are raised, allocation of funds between the products will be revisited.

Figure 2. Overall Program Funding with CDFI Leverage

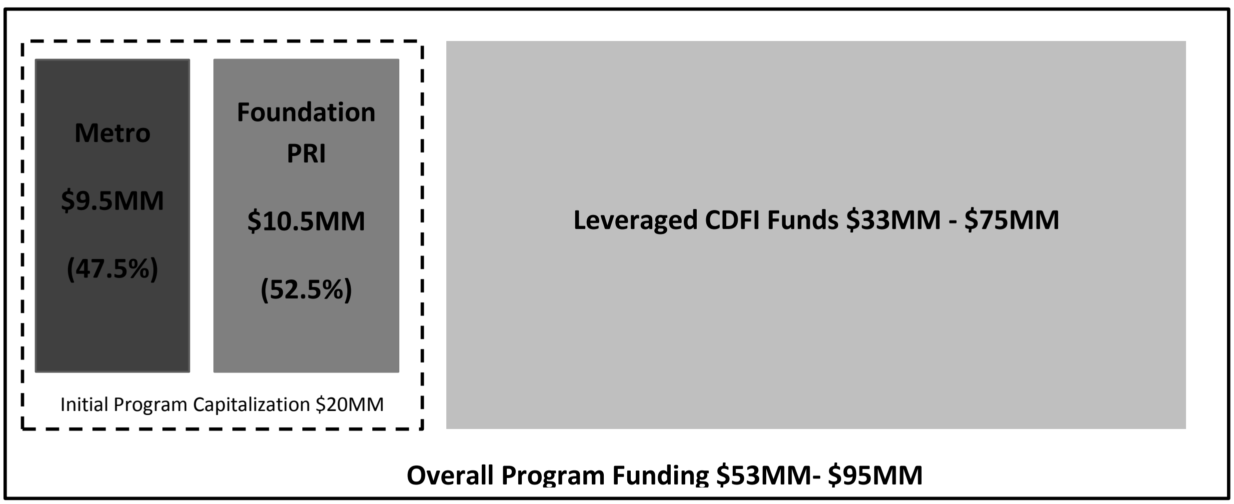
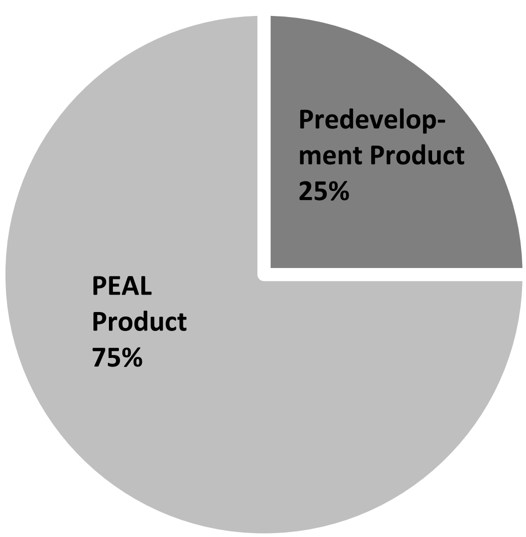


Figure 3. Program Allocation, $53MM to $95MM Total



Program Terms:

- 13-year Program, with a 3-year initial origination period, to allow for a maximum of 10 year loan term (Metro/PRI and CDFI contributions to be co-terminus)
- Project loan terms as short as 2 years up to 10 years (as 2 consecutive 5-year terms)
- Revolving, with new loans originated as loans are repaid
- Long term affordability restrictions (apply to future development for predevelopment loans and proposed redevelopment for PEAL loans):
    - **100% Affordable:** 100% of units restricted to 60% or below AMI (or meet mixed-income rules below); or
    - **Mixed-Income:** Minimum 75% of residential units developed as affordable housing to receive full loan; if less than 75%, project loan amount will be adjusted. Or,
    - **Mixed-Use:** Minimum 75% of total square footage will be developed as affordable housing to receive full loan; if less than 75%, project loan amount will be adjusted
- Repayment without meeting redevelopment target (PEAL product): in the event borrower is unable to realize a redevelopment project as originally planned, sales proceeds would be subject to an equity recapture requirement.

Impact and Risk:

- Predevelopment Loans
    - Up to $1MM in Metro/PRI contribution, in 2 installments, subject to evidence of committed permanent take-out financing for the second installment
    - Program Loans will be unsecured with priority of repayment to CDFI loans
    - 100% Recourse to borrower and 100% guarantee from sponsor

- Preserving and Expanding Affordability Loans (PEAL)
    - Up to the lower of $2MM or 120% LTV, in Metro/PRI contribution
    - Metro/PRI contributions are subordinate to CDFI contributions
    - 100% Recourse to Borrower
    - Repayment guarantee from sponsor (and principal, if for-profit sponsor) for loan amount above 75% LTV

- Borrower Profile
    - Non-profit developers, acting solely or in joint-venture with a for-profit developer, with a minimum of 3-5 years of experience in affordable housing development, a successful track record of obtaining public and private financing for at least 2 similar projects, and experience managing assets similar in size and budget. We encourage strong joint venture partnerships with neighborhood Community Development Corporations (CDCs) and non-profit developers as a strategy to optimize developers' different strengths and expertise and to use the CDCs' familiarity with communities,

particularly in addressing displacement issues. Joint venture agreement should specify an active role for the non-profit or CDC partner.

- Adequate organizational capacity and stability, without material defaults or material adverse financial change within the past 7 years

IV. Preliminary Loan Product Descriptions:

A. Predevelopment Loan Product
B. Preserving and Expanding Affordability Loan (PEAL) Product

A. Predevelopment Loan Product

Research[1] showed that predevelopment financing is key to developing affordable TOC developments, which can take more time than typical affordable housing deals-in particular if they include complex entitlements, a mixed-use component or some infrastructure work. The program will provide predevelopment financing for projects with site control, with an achievable strategy and schedule of milestones for securing the construction and permanent financing needed for affordable housing projects. Predevelopment loans will support projects that leverage typical affordable housing financing (i.e, a “typical” LIHTC structure) but would also compete well for permanent financing such as the Strategic Growth Council’s Affordable Housing and Sustainable Communities (AHSC) program or Los Angeles County’s affordable housing funds. One of the goals of the Predevelopment Loan Product is to support the creation of a strong pipeline of transactions to compete for AHSC by providing experienced developers extra resources to act quickly and efficiently. The goal is for borrowers to have projects in construction no later than within 2-3 years of the loan closing, and redeploy the funds as the loans are repaid.

Typical Predevelopment Loan Example:

Predevelopment Loan - $1,000,000

- $500,000 – Metro/PRI Contribution
- $500,000 – CDFI Contribution
- Borrower must demonstrate site control and milestones for securing project financing

Supplemental Predevelopment Loan – up to $500,000

- Metro/PRI Contribution
- If needed, once borrower can demonstrate committed permanent financing

Maximum Predevelopment financing for a project - $1,500,000

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[1] Incentives to Encourage Equitable Development in Los Angeles County Transit Oriented Districts. Center for Transit-Oriented Development, Enterprise Community Partners, and Low Income Investment Fund. (2013)

Predevelopment Loan Program Guidelines:

Maximum Metro/PRI Contribution - $1,000,000

- **Term –** 24 months, with 12 month extension
- **Revolving –** assumes loans are repaid every 2 or 3 years
- **Collateral -** Unsecured
- **Recourse -** 100% recourse to borrower
- **Repayment Guarantee –** 100% repayment guarantee from sponsor (and principal, if for-profit sponsor) if borrower is a Single Purpose Entity
- **Equity –** The lower of $50,000 or 3-5% of predevelopment costs
- **Concentration –** Limit of 1 loan per developer, with exceptions contingent on approval from Program participants
- **Eligibility -** Experienced non-profit - or joint ventures with demonstrable project-level site control
- **Long term affordability restriction for proposed development**
    - 100% Affordable: 100% of units restricted to 60% or below AMI (or meet mixed-income rules below); or
    - Mixed-Income: Minimum 75% of residential units developed as affordable housing to receive full loan; if less than 75%, project loan amount will be adjusted. Or
    - Mixed-Use: Minimum 75% of total square footage will be developed as affordable housing to receive full loan; if less than 75%, project loan amount will be adjusted

B. Preserving and Expanding Affordability Loan (PEAL) Product

The PEAL Product is geared towards acquisition of existing apartment properties near Metro transit corridors in Los Angeles County. Research[1] has shown that proximity to transit can be a significant contributing factor to increasing market values and rents. Research has also shown that a large portion of the housing portfolio near transit in Los Angeles County is comprised of "naturally occurring affordable housing", non-restricted housing at rents lower than the average market rents, held stable temporarily by market forces and rent stabilization ordinances. As development occurs near the transit stops, consistent with SCAG's Sustainable Communities Strategy goal of encouraging most new development around transit, gentrification and displacement may occur. The purpose of the PEAL program is to help affordable housing developers purchase multifamily properties in advance of gentrification and displacement forces that might occur in order to preserve and expand the number of affordable units, with likely capacity on eligible sites to at least double the number of units or square footage.

The program products will provide patient funding for affordable housing developers to purchase qualified multifamily properties and hold for 5 – 10 years while community and site-specific plans are completed to significantly increase the number of affordable units.

The program products will provide a mechanism for borrowers to purchase at-risk buildings quickly, stabilize rents and occupancy costs, and secure entitlements to develop two to four times the number of existing affordable units on site. Fund managers and local government partners will work with borrowers to secure a property tax exemption during the holding period. To ensure enforcement of a "no net loss" policy, when the property is ready for redevelopment, existing tenants will be provided with relocation assistance and the opportunity to return to the completed project.

The goal is that many of the properties acquired with PEAL will secure funding from cap and trade, local housing funds and Low Income Housing Tax Credits to develop permanently affordable housing complexes with affordability secured by long term covenants. However, as developers might be unable to move forward a redevelopment project as planned, they will have to meet a "safe harbor" requirement – i.e. a project-specific minimum number of affordable units established at loan closing - in which case, there could be an equity split of sales proceeds with the borrower (level to be determined). If a developer doesn't meet the safe harbor requirement, sales proceeds will be subject to an equity recapture requirement. In case sales proceeds with restrictions are not expected to be sufficient to pay off the debt, affordability requirements will be reduced to support debt repayment.

Typical PEAL Example:

Sources/Uses (24 units)

Sources	
CDFI Contribution –First Deed of Trust	$3,185,000
Metro/PRI Contribution	$1,040,000
Borrower Equity	$130,000
Total	$4,353,000
Uses	
Property Acquisition	$3,745,000
Fire/Life/Safety Repairs+Temp Relocation	$100,000
Replacement Reserves	$250,000
Operating Reserve	$50,000
Interest Reserve	$105,000
Legal, Appraisal, PNA, environmental, etc	$40,000
CDFI Loan Fees	$50,000
Metro/PRI Fees	$10,000
Total	$4,355,000

PEAL Program Guidelines:

Maximum Metro/PRI Contribution – the lowest of 120% LTV or $2MM
Term – 5-year initial interest-only term, plus optional additional 5-year term (amortizing for the CDFI contribution, residual receipts for the Metro/PRI contribution). The additional term will be contingent upon: lender's underwriting, co-terminus with the CDFI contribution, and the funding of a DCR reserve to ensure a 1.15 DCR as needed
Revolving – as early as every 5 years as loans repay
Recourse - 100% recourse to borrower
Eligible Properties - Eligible properties must satisfy minimum standards for safe, decent, and sanitary housing but might require some level of repair and rehabilitation.
Repayment Guarantee –Above 75% LTV repayment guarantee from sponsor if Borrower is a Single Purpose Entity (and principal, if for-profit sponsor)
Developer Equity Required – The lower of $100,000 or 3-5% of acquisition costs (exceptions for non-profit borrowers subject to approval by lenders)
Sinking Fund - Net cash flow during first term goes to a sinking fund, with an adjustable cap at an amount to be approved at closing; cash flow above cap to be distributed to borrower. Sinking Fund would be recast as a portion of the Debt Service Coverage reserve for the 2nd term
Short Term Affordability Restrictions During Preservation Period - 80% AMI affordability restrictions for the term of the loan; staff can approve exceptions down to a minimum of 75% of units restricted
Long term affordability restriction for proposed redevelopment -

- 100% Affordable: 100% of units restricted to 60% or below AMI (or meet mixed-income rules below); or
- Mixed-Income: Minimum 75% of residential units developed as affordable housing to receive full loan; if less than 75%, project loan amount will be adjusted. Or
- Mixed-Use: Minimum 75% of total square footage will be developed as affordable housing to receive full loan; if less than 75%, project loan amount will be adjusted