



Date: November 20, 2012

To: Thomas J. Bonfield, City Manager
Through: Keith Chadwell, Deputy City Manager
From: Reginald J. Johnson, Director
Department of Community Development
Subject: Rebuild Durham, Inc. Loan Modification

Executive Summary

In June of this year, City Council authorized the expenditure of \$366,322.85 in housing bond program income in the form of reimbursement to the U.S. Department of Housing and Urban Development of a result of non-compliance with the requirements of the Home Investment Partnership (HOME) program by Rebuild Durham, Inc. (RDI). The Department has consulted with the City Attorney's office and outside counsel to develop loan modifications and related documents necessary to substitute non-federal funds. The proposed loan modifications will defer the payment of the remaining City of Durham loan balances on twelve of the thirteen RDI properties until the future sale of the properties. For the thirteenth property, loan cancellation documents have been prepared allowing for the transfer of the deed to the City of Durham. The thirteenth property is 110 Chestnut Street which is located within the Southside project area.

Recommendation

The Department of Community Development (DCD) recommends that City Council authorize the City Manager to execute loan modifications for twelve RDI properties. The loan modifications defer payment of the remaining loan balances until sale of the properties. The DCD also recommends that City Council authorize the City Manager to accept the deed transferring fee simple ownership of 110 Chestnut Street to the City and execute a Certificate of Satisfaction.

Background

Eleven of the thirteen RDI properties have first mortgages held by SunTrust. Because of a high vacancy rate within its portfolio of properties, RDI secured a loan modification from SunTrust to enable it to become current on first mortgage loan payments and to improve cash flow to make repair to vacant units and get them re-occupied. Existing rents provide insufficient cash flow to cover the SunTrust loan, operating expenses and payments on the City's loans. Therefore, RDI ceased loan payments to the City in September 2011, leaving an outstanding principal balance of \$366,322.85.

Issues and Analysis

RDI's original loan terms were 0% interest with a 30 year amortization. The modified loan term will remain 0% with an infinite term, and with a lump sum payment of the remaining loan balances due upon sale of each property. The properties are subject to a 15 year period of affordability which began on the date that the original certificate of occupancy was issued.

The period of affordability that remains for each property will continue to be enforced by way of deed restrictions.

By eliminating amortization of the City's loans, RDI will be better able to maintain its portfolio of affordable housing while also providing a mechanism for the eventual repayment of the City's investment.

The property at 110 Chestnut Street will be deeded back to the City, demolished and held for future redevelopment.

Alternatives

An alternative to requiring payment of the City's loan upon sale is to allow the loan to be forgiven over the remaining loan term.

Financial Impact

No immediate financial impact is associated with the loan modifications. However, as properties are sold, a total of \$308,526.10 will be repaid to the City for future reinvestment in affordable housing. The current loan balance on the Chestnut Street property is \$57,796.75, which will be cancelled when the property is deeded to the City.

SDBE Summary

Not applicable to this item.

Attachments

Amendment to Deeds of Trust and CHDO Loan Agreement
Certificate of Satisfaction for 110 Chestnut Street