



September 4, 2020

Jeffery B. McLaughlin, Ph.D.
Housing Authority of City of Riverside
3900 Main Street
Riverside, CA 92522

RE: Mission Heritage Plaza: Subordination of Housing Authority Regulatory Agreement

Dear Mr. McLaughlin:

Wakeland Housing and Development Corporation (Wakeland) is the developer and financial guarantor of the Mission Heritage Plaza affordable housing project. Wakeland has been working on the development and financing of the project with the Fair Housing Council of Riverside County (FHC) for the past four years. Mission Heritage Plaza is an ambitious project with a total development cost of approximately \$47 million, and Wakeland and FHC have assembled a capital stack that includes six subordinate financing sources, 55 project-based vouchers from the County of Riverside and \$3.46 million in competitive California State tax credits.

To complete the financing for Mission Heritage Plaza, Wakeland solicited lending and investment partners through a request for proposals process. In presenting the RFP and responding to questions from potential financial participants, Wakeland relied upon the terms and conditions of the existing regulatory agreement that was executed by the Housing Authority of the City of Riverside (Housing Authority) in March 2018 and recorded against the subject property. Section 14 of the existing regulatory agreement expressly allows for the subordination of the regulatory agreement "to a senior construction loan, and when converted into its permanent phase, a permanent loan, and the regulatory agreement recorded in connection with any award of low-income housing tax credits."

The RFP was shared with a number of potential lenders and investors and Bank of America (BoFA) was the only response received by Wakeland for construction lending and equity investment. However, despite the current market volatility, BoFA is providing financing for Mission Heritage Plaza at very favorable terms. Moreover, the California Community Reinvestment Corporation (CCRC) has agreed to provide a permanent loan for the project at competitive rates.

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Wakeland has spent a significant amount of time negotiating financing terms with BofA. The construction loan commitment resulting from those negotiations states, "Each Junior Lender shall execute a subordination agreement in form and substance acceptable to Bank." This is an industry-standard requirement that is (a) already permitted by the Housing Authority's recorded regulatory agreement; and (b) justified by BofA's higher level of credit risk exposure relative to the Housing Authority's. For instance, BofA will provide a construction loan of approximately \$28 million for the project, while the Housing Authority's loan is \$3 million. Additionally, because the major terms of the BofA's construction loan (including upfront fees, interest-rate spread, and risk-related limits such as maximum loan-to-value and loan-to-cost ratios) were all approved based on the assumption that the Housing Authority's regulatory would be subordinate, waiver of this requirement would likely result in delays related to additional credit approvals (by both BofA and CCRC) and increased loan costs due to less favorable credit terms. Attached to this letter, please find E-mail correspondence from BofA summarizing its position on this issue.

Wakeland hereby requests that the Housing Authority accommodate BofA's request to subordinate the Housing Authority's regulatory agreement to the construction loan, and ultimately CCRC's permanent loan. Wakeland is very concerned that delays associated with additional credit approvals will imperil the timing of the construction closing for Mission Heritage Plaza. The competitive funding awards we have assembled for the project expire on November 10, 2020. In addition, funding reductions and cost increases associated with more conservative loan terms will threaten the financial feasibility of the project.

Wakeland appreciates its partnership with the City of Riverside, and looks forward to closing the financing for Mission Heritage Plaza and starting construction on this important project. Please let me know if you have questions or need any further information on this matter.

Sincerely,

A handwritten signature in cursive script that reads "Peter Armstrong".

Peter Armstrong
Vice President

Attachment: E-mail Correspondence from Adam Cray, Vice President, Bank of America dated September 4, 2020

Mission Heritage Plaza; Subordinating Housing Authority Regulatory Agree...

From: Cray, Adam
To: Peter Armstrong
Cc: Catton, Scott, Salomon, Scott M., mwilliamson (mwilliamson@buchalter.com)
Sent: 9/4/2020 3:53:40 PM

Hello, Peter—

As discussed, I'm following up regarding subordination of the Housing Authority of the City of Riverside's regulatory agreement. The term sheet we negotiated for this transaction was based on several assumptions regarding the subordinate financing, one of which was that all regulatory agreements executed in connection with any subordinate financing would likewise be subordinated to the Bank of America construction/permanent deed of trust. Therefore, if the Authority is unable to subordinate its regulatory agreement to our financing documents, we would need to obtain credit approval, which we cannot guarantee will be granted. Even if credit approval is granted, it would likely be subject to new terms and conditions less favorable to the borrower than those presented in our existing term sheet. Likewise, we understand that California Community Reinvestment Corporation (the senior permanent lender/owner of the bonds following the conversion date) has the same requirement with respect to the regulatory agreement, waiver of which would necessitate additional credit approval on their end.

Consequently, requesting that the Authority's regulatory agreement be senior to the BofA/CCRC deed of trust is anticipated to cause substantial delays in the closing schedule and may result in gaps in the capital stack needed for closing.

Please feel free to call or email if you need any additional information regarding this issue.

Many thanks,
A.

Adam F. Cray
Vice President
Community Development Banking

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 Bank of America logo

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