

Attachment 6



August 28, 2020

Siyao "Becky" Mo
Program Design & Development Representative I
California Department of Housing & Community Development
2020 W. El Camino Ave. Suite 650
Sacramento, CA 95691

RE: Interest Rate Reduction for 18-VHHP-12266
Mission Heritage Plaza

Dear Ms. Mo:

Wakeland Housing & Development Corporation requests a reduction to the interest rate of the Veterans Housing and Homelessness Prevention Program (VHHP) loan from 3.00% to 0.42%. This interest rate reduction is needed to mitigate the investor limited partner's negative capital accounts, which results in investor exit taxes in Year 15 that would need to be paid Wakeland.

As required, we are enclosing two financial analyses prepared by the investor limited partner, Bank of America N.A. Version A shows a capital account analysis with the 3.00% interest rate and Version B shows a capital account analysis with the 0.42% interest rate. We are also requesting the Housing Authority of the City of Riverside reduce the interest rate on its soft loan from 3.00% to 1.00%, which is incorporated in the capital account analyses.

If the VHHP loan is at 3.00% interest rate, this results in a negative project capital account of approximately -\$1.087 million starting in Year 12. The capital accounts worsen over time and is approximately -\$7.31 million in Year 15. This negative capital account in Year 15 results in substantial investor exit taxes of approximately \$1.775 million (\$24,653 per unit), which would need to be paid by Wakeland. Please refer to second page of the Capital Accounts Analysis Version A.

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If the VHHP loan is at 0.42% interest rate, this would mitigate or slow down the negative capital accounts. In Year 12, the project would still experience negative capital accounts but the amount is substantially less and can be addressed by reallocating losses from the investor limited partner to the nonprofit general partner. Starting in Year 12, the investor has agreed to take less losses (allocation of losses to the investor will be reduced from 99.99% to 19.38%), which results in positive capital accounts of approximately +\$1.116 million. The capital accounts remain positive through Year 15. The combination of the VHHP and City Loan interest rate reductions and the reallocation of losses ensure positive capital accounts through Year 15 and zero exit taxes. Please refer to Capital Accounts Analysis Version B.

It is critical to ensure that there are no exit taxes in Year 15, which improves the ability of Wakeland as a nonprofit sponsor to purchase the project in Year 15. The purchase by a nonprofit sponsor ensures that the project remains affordable in perpetuity.

We are requesting this interest rate reduction approval before construction loan closing, which is scheduled to occur on October 1, 2020. The investor requires this interest rate be approved prior to closing as post-closing changes in the interest rates can have unanticipated tax consequences for the financial structure.

This request includes the following:

1. Copy of HCD VHHP loan award letter
2. Executed TCAC Reservation Letter
3. Financial Analyses with VHHP loan at 3.00% and 0.42% interest rates
4. Application and Certification Statement executed by sponsor, investor and tax professional

We thank you in advance for our consideration of our request. If you need additional information or have questions, please contact me 619-933-6917. Thank you.

Sincerely,



Peter Armstrong
Vice President