



# Loan Committee Meeting

## Housing Assistance Council

Friday, May 18, 2018  
10:00 am (EST)  
HAC Conference Room

**AGENDA**..... 3

**MINUTES**

November 3, 2017 ..... 4  
February 9, 2018 ..... 8

**ACTIONS BY LOAN COMMITTEE**

Loan Modification  
Self-Help Housing Corporation of Hawaii .....12

**OTHER MATTERS, INFORMATION, AND STATUS REPORTS**

Actions by Executive Director..... 16  
SHOP Program Updates ..... 17  
Loan Delinquency Report..... 20

LOAN COMMITTEE MEETING  
FRIDAY, MAY 18, 2018 – 10:00 A.M. (EST)  
HAC CONFERENCE ROOM

**I. CALL TO ORDER**

- A. Approval of Agenda
- B. Approval of Minutes
  - 1. November 3, 2017
  - 2. February 9, 2018

**II. ACTIONS BY LOAN COMMITTEE**

- A. Loan Modification
  - 1. Self-Help Housing Corporation of Hawaii, HI (RHLF/HLP)

**III. DISCUSSION**

- A. HAC REO Portfolio\*
- B. Outreach and Marketing Activities\*

**IV. OTHER MATTERS, INFORMATION AND STATUS REPORTS**

- A. Actions by Executive Director
- B. SHOP Program Updates
- C. Loan Delinquency Report

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\* The PowerPoint presentations will be distributed prior to the meeting.

**CALL TO ORDER**

M. Ginn called the meeting to order at 9:05 am (EST), Friday, November 3, 2017.

Attendees: *Loan Committee:* G. Anders, J. Casper, R. Calvillo, M. Ginn, I. Jacobs, D. Lipsetz, L. West-Hoff, P. Carey (alternate); *Staff:* K. Klusmann, C. Muralles, J. McGraw, R. Shrestha; *Legal Counsel:* J. McGovern

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**ACTION ITEMS****Matter: Approval of Agenda**

Action 2018-01: G. Anders moved and R. Calvillo seconded the approval of the agenda. The motion carried unanimously.

**Matter: Approval of Minutes**

Action 2018-02: R. Calvillo noted that the September 15, 2017 minutes should be amended to remove him from the action taken on HLP to SHOP 2014 loan conversions; he did not attend the meeting. I. Jacobs moved and R. Calvillo seconded the approval of the amended September 15, 2017 minutes. The motion carried unanimously.

**Matter: Negotiation of Lease/Sale Option - Nevada** [presented by J. McGraw, pages 7-8 of the November 3, 2017 meeting package]

Request: Grant staff authority to complete the negotiations, with final approval by the Executive Director, on an option from Roadrunner, LLC to lease/purchase a 30.77-acre parcel of real property located in Pahrump, Nye County, Nevada.

Discussion: After the presentation, the Loan Committee had inquiries, general comments, and/or concerns including, but not limited to:

- HAC would be funding a business venture with multiple corporations. HAC's practice has been to sell/transfer REO properties when feasible to entities serving the rural poor.
- A lease/sale option may not be in HAC's best interest. An option price of \$100,000 is unacceptable regardless of the location. It is unclear how the value was determined.
- The restrictions stated by the buyer are presumptuous. HAC owns the land and should dictate what HAC will and will not pay for (e.g., property taxes and insurance).
- The city of Pahrump (about 40 miles from Las Vegas) does not have much of a future in terms of affordable housing development. The current value of the property is not sufficient to recover HAC's investment.
- At staff's request, L. West-Hoff reviewed the option agreement and proposed an adjustment. She was vehemently opposed to HAC funding a business venture and would not support this effort.

The Loan Committee requested that legal counsel review the lease/sale option before taking a vote.

- On break, J. McGovern had the opportunity to review the option and believed there were areas that required changes and agreed to work with HAC staff and the buyer to resolve.

Action 2018-03: G. Anders moved and J. Casper seconded to grant staff authority to complete negotiations with legal counsel's guidance and with final approval by the Executive Director on the lease/sale option for the Pahump, Nevada property. L. West-Hoff opposed. The motion carried.

**Matter:** HAC REO Portfolio [presented by J. McGraw, pages 20-27 of the November 3, 2017 meeting packet]

Discussion: After the presentation, the Loan Committee had inquiries, general comments, and/or concerns including, but not limited to:

- When property is listed, are there restrictions? *No, but staff does communicate to the broker its preference that the property be sold to an entity that serves low- to moderate-income families. HAC does not have a formal policy that requires the properties be sold for use by low- to moderate-income families. This has been a practice (implied policy) when feasible.*
- Market values appear to be less than the tax assessment values. Does staff make requests to the local tax authority for lower tax rates? *Staff has not requested but will review the REO portfolio to determine if there might be cost savings.*
- The Loan Committee suggested that staff identify REO properties that should be land banked for future affordable housing with the remaining portfolio for disposition to the highest bidder. *Staff will review the REO and provide the committee with recommendations for the properties that should be held for future affordable housing.*

Action 2018-04: J. Casper moved and R. Calvillo seconded to authorize staff to market and sell REO properties to the highest bidder. The motion did not pass.

## DISCUSSION

**Matter:** Loan Fund Portfolio Activity and Performance – FY 2017 [presented by K. Klusmann, pages 9-16 of the November 3, 2017 meeting packet]

Comments: After the presentation, the Loan Committee had inquiries, general comments, and/or concerns including, but not limited to:

- Obligated funds, including commitments and funds not drawn, do not make money, but cost HAC money. These funds need to be deployed and a broader deployment strategy instituted.
- Does the cost of debt consider the equity? *No, the equity or grants received are not part of the cost of debt calculation.*
- What is the status of CDFI Capital Magnet Fund (CMF) award? *In August 2017, staff provided the CDFI Fund additional information to help them determine the feasibility of HAC meeting the CMF requirements. There continues to be some back and forth about the pipeline (does HAC have adequate pipeline to deploy? what is related to the Capital Magnet*

*Fund?). Staff believes that HAC will receive some portion of the \$1.2 million award. HAC's one-year sanction period from applying and receiving CDFI money ended in September 2017.*

- Matter:** **Outreach and Marketing Activities** [PowerPoint presentation by K. Klusmann]  
**Comments:** After the presentation, the Loan Committee had inquiries, general comments, and/or concerns including, but not limited to:
- HAC may be able to assist the disaster areas across the country with rebuilding to provide affordable housing by partnering with local nonprofits, HUD, or FEMA. HUD and USDA are looking for sites to use their resources.
  - As disasters and crises occur, HAC has an opportunity to work with delivery organizations that previously existed and/or are dormant to revitalize and start housing activities again that help their communities. *Staff will review its past loan fund borrowers, determine whether they are still in existence and see if there are opportunities to assist.*
  - Organizations can request assistance under HUD's Community Compass program (OneCPD, a demand-response program). The requests are funneled up through the local participating jurisdiction to HUD and then a TA provider, such as HAC.

- Matter:** **Deployment Goals – FY 2018** [PowerPoint presentation by K. Klusmann]  
**Comments:** After the presentation, the Loan Committee had inquiries, general comments, and/or concerns including, but not limited to:
- Why is HAC seeking a 20% increase on disbursements and only 15% on commitments? *Loan disbursements do not only coincide with increased commitment approvals for FY 2018. The loan disbursement goal includes loans that closed in prior fiscal years, but subsequent disbursement will occur in FY 2018. For commitments, staff is looking at existing, as well as new commitments approved in FY 2018.*

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#### OTHER MATTERS, UPDATES, AND REPORTS

- Matter:** **SHOP Program Updates** [presented by C. Muralles, pages 17-19 of the November 3, 2017 meeting packet]  
**Comments:** After the presentation, the Loan Committee had no inquiries, general comments, and/or concerns.
- Matter:** **Covenant Compliance Reports** [presented by K. Klusmann, pages 28-33 of the November 3, 2017 meeting packet]  
**Comments:** After the presentation, the Loan Committee had no inquiries, general comments, and/or concerns.
- Matter:** **Loan Delinquency Report** [presented by J. McGraw, page 34 of the November 3, 2017 meeting packet]  
**Comments:** After the presentation, the Loan Committee had no inquiries, general comments, and/or concerns.

- Matter:** HUD Communications [presented by C. Muralles, page 35 of the November 3, 2017 meeting packet]
- Comments:** After the presentation, the Loan Committee had inquiries, general comments, and/or concerns including, but not limited to:
- Has legal counsel drafted a memo regarding HAC's obligation to refund to HUD funds for which projects could not be completed? *No formal memo has been drafted but discussions have been held with staff and some writings drafted.*
  - M. Loza commented that this was an instance where the hassle, the problems, investment of time, and possible legal costs that HAC would go through had to be weighed. Furthermore, other SHOP grantees with similar problems have also returned funds, but HAC does not know the amount. It seems to be established that returning funds is what is happening. One of the important reasons to show the net effect is that one must balance any possible benefits. If HAC is going to get into this fight, what are the consequences? Presently, it may not be a battle HAC wants to take on.

The meeting adjourned at 10:48 am (EST), Friday, November 3, 2017.

**CALL TO ORDER**

I. Jacobs called the meeting to order at 10:00 a.m. (EST), Friday, February 9, 2018.

Attendees: *Loan Committee:* G. Anders, P. Carey, I. Jacobs, D. Lipsetz, A. Saavedra, L. West-Hoff, P. Wright; *Staff:* B. John, K. Klusmann, J. McGraw, C. Muralles, R. Shrestha.

**ACTION ITEMS****Matter: Approval of Agenda**

Comments: Item III.A, Update on Outreach and Marketing Activities, was removed from the agenda.

Action 2018-05: L. West-Hoff moved and P. Carey seconded the approval of the revised agenda. The motion carried unanimously.

**Matter: Election of Loan Committee Chair and Vice Chair**

Comments: I. Jacob and L. West-Hoff were nominated as the Chair and Vice Chair, respectively, of the committee; both accepted.

Action 2018-06: P. Carey moved and L. West-Hoff seconded to elect I. Jacobs as Chair of the committee. The motion carried unanimously.

Action 2018-07: A. Saavedra moved and D. Lipsetz seconded to elect L. West-Hoff as the Vice Chair of the committee. The motion carried unanimously.

**Matter: SHOP 2010 Loan Modification Request: Helping Overcome Poverty's Existence, Inc. (HOPE) [presented by J. McGraw, pages 2-4 of the February 9, 2018 meeting packet]**

Request: Extend the maturity date of HOPE's SHOP 2010 loan (#1-1405-1111) until July 31, 2018 and convert the loan to an RHLF if the organization is unable to satisfy the debt maturity date.

Discussion: After the presentation, the Loan Committee had inquiries, general comments, and/or concerns including, but not limited to:

- There were concerns regarding converting the loan to RHLF because there were several unanswered questions (e.g., ability to repay the loan, potential units that can be completed, project affordability if the forgivable portion goes away, HAC's risk and the dollar amount that would have to be returned to HUD). *Staff acknowledged that there are many unknowns which have yet to be addressed. Staff plans to work with HOPE to address issues raised by the committee and develop a workout plan to present to the committee prior to the July 31, 2018 loan maturity date.*
- The consensus of the committee was to extend the loan but wait to consider converting the RHLF until additional information can be provided.

Action 2018-08: G. Anders moved and A. Saavedra seconded to extend the SHOP 2010 (#1-1405-1111) loan until July 31, 2018. The motion carried unanimously.

**Matter: SHOP 2005 Loan Modification Request: Seventh District Pavilion, Inc. [presented by R. Shrestha, pages 5-7 of the February 9, 2018 meeting packet]**

- Request: (1) Consolidate SDPI's SHOP 2005 loan (#1-907-0908) into its existing RHLF loan (#0-868-0608); (2) extend the consolidated RHLF loan until June 30, 2018; (3) formally forgive \$67,200 (six complete units) related to SHOP 2005; and (4) grant staff the authority to proceed with foreclosure if the debt is not converted to the RHLF debt and the debt is not fully satisfied by June 30, 2018.
- [D. Thorne, SDPI's Housing Director, is a member of the HAC board of directors.]
- Discussion: After the presentation, the Loan Committee had inquiries, general comments, and/or concerns including, but not limited to:
- At some point repeated extensions call into question the appropriateness of the board decision to treat this loan differently than another loan. They also raise potential conflict issues.
  - What is SDPI's plan to salvage the loan? Are they looking at other developers/buildings that could purchase the lots? *Although the organization is no longer a USDA 523 grantee, they continue to look for homebuyers. A lot was recently sold to a family that secured a 502 loan; HAC received \$20,000.*
  - What does HAC accomplish if SDPI is actively marketing the lots? *The organization has been slow in marketing the lots. SDPI has listed a few developed lots with a local realtor, but not for the undeveloped phases (1 & 2). They have not obtained an appraisal to determine the value of the parcel.*
- Action 2018-09: G. Anders moved and A. Saavedra seconded to consolidate the SHOP 2005 loan into RHLF, formally forgive \$67,200 related to six completed SHOP 2005 units, extend the loan until June 30, 2018, and authorize staff to proceed with foreclosure (including accepting a deed-in-lieu of foreclosure) if the debt is not satisfied by the loan maturity date. The motion carried unanimously.

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## DISCUSSION

- Matter:** **Presentation: Deployment Goals – FY 2018** [presented by K. Klusmann]
- Discussion: After the discussion, the Loan Committee had inquiries, general comments, and/or concerns including, but not limited to:
- What is the cause for the drop in the number of loan requests/applications in the last six months compared to prior years? *Staff are receiving Loan Fund inquiries; however, after discussing the projects with the entities, staff are finding that the projects are either not ready to go or are outside of HAC's lending scope.*
  - Does staff track and document Loan Fund inquiries so that the committee can consider expanding the scope of HAC's lending? *A log is maintained to track inquiries, nature of the projects, applications sent out, etc. Staff needs to revisit some of the deals and determine if they are missed opportunities or did not fit in HAC's niche.*
  - The committee suggested that the pipeline report keep track of serious inquiries, the ones that staff are working or courting and remind staff where they are as a team.

- With limited staff, how is staff getting out to housing finance agencies, conferences, and meeting with other CDCs? *As part of outreach and marketing, staff must strategically figure out with whom and where to connect.*

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#### OTHER MATTERS, UPDATES, AND REPORTS

**Matter:** **SHOP Program Updates** [presented by C. Muralles, pages 8-10 of the February 9, 2018 meeting packet]

**Comments:** After the discussion, the Loan Committee had inquiries, general comments, and/or concerns including, but not limited to:

- For the pending SHOP grants, what is the forecast for completing the units owed to HUD? *SHOP rounds 2009 to 2012 are making progress. The completion dates in the corrective action plans are based on reviews and discussion with affiliates. HAC potentially may have to return funds for a few units that are unlikely to be completed by the revised deadline. But there is no exposure for HAC because most of the organizations are in good financial condition to repay HAC.*
- Is HUD responding well to the increased emphasis on corrective action plans? *HUD has been very responsive, although slow at times due to other priorities at HUD. Recently, they approved the reallocation of SHOP 2011 funds and waived the HERS requirement for three affiliates. Overall, the outcomes of HAC's requests have been favorable.*

**Matter:** **Delinquency Report** [presented by J. McGraw, page 11 of the February 9, 2018 meeting packet]

**Comments:** After the presentation, the Loan Committee had no inquiries, general comments, and/or concerns.

**Matter:** **Capital Magnet Fund Award (verbal)** [presented by K. Klusmann]

**Comments:** After the discussion, the Loan Committee had inquiries, general comments, and/or concerns including, but not limited to:

- Will the funds be used for long-term projects? *Yes, the \$700,000 CMF grant will serve as a loan loss reserve to support multifamily rental projects. Typically, HAC makes preservation loans for 10-15 years.*
- How will the administrative costs be funded? *\$35,000 (or 5% of the CMF award) can be used to support administrative costs. Other support will come from other sources (e.g., HUD RCB, RHLF).*

**Matter:** **SHOP 2017 Funding Proposal (verbal)** [presented by J. McGraw]

**Comments:**

- HAC submitted a \$6.51 million (includes \$1.32 million for administration) SHOP 2017 funding application in January 2018.
- The funding request was based on responses from market surveys collected in December 2017 from affiliates that had good performance track records.
- HAC will make the affiliate application available in late February 2018 to organizations that submitted market surveys.

**Matter:****Availability of the SHOP Forgivable Portion**

## Comments:

- When HAC reaches the approved HUD unit completion deadline, HAC allows groups to retain the forgivable portion related to the units completed. For units not completed, HAC is financially at-risk if the group is unable to pay the funds back.
- The current SHOP structure unintentionally discourages, rather than encourages, groups to complete all their units approved/disbursed on time because they know they will get the forgivable portion related to the units they complete. There are no penalties or restrictions imposed on groups for partial performance.
- Loan Committee asked staff to take a closer look at this issue (for new SHOP rounds) that disincentivizes groups when they fail to deliver all units; groups should not be allowed to get full credit for a forgivable portion when the total unit obligation is not met.

The meeting adjourned at 12:00 pm (EST), Friday, February 9, 2018.

**REASON FOR REQUEST**

- 04/12/2018 – Received Self-Help Housing Corporation of Hawaii’s (SHHCH) request to extend the maturity dates for the below referenced loans until December 31, 2018 due to continuing delays in USDA RD loan processing. In addition, staff requests a loan increase to cover the interest reserve and loan extension fees.

**CURRENT LOAN INFORMATION (as of 05/10/2018)**

Loan Fund	Loan No.	Approved Commitment	Principal Balance	Maturity Date	Proposed Units	Completed Units
RHLF	0-954-1302	\$1,972,148	\$932,568	05/10/2018	70	0
HLP	174-1302	707,000	335,084	05/10/2018		
		<b>\$2,679,148</b>	<b>\$1,267,652</b>		<b>70</b>	<b>0</b>

**PROJECT BACKGROUND**

- 02/20/2013 – HAC’s Loan Committee approved loans totaling \$2,579,148 (RHLF \$1,872,148 and HLP \$707,000) for acquisition, soft costs, and infrastructure improvements associated with 70 lots in the Pokai Bay subdivision located in Waianae, Honolulu County, Hawaii.
- 03/11/2013 – HAC’s Executive Director approved (ratified by Loan Committee on April 5, 2013) a \$100,000 increase in the RHLF from \$1,872,148 to \$1,972,148 due to a \$200,000 increase in the sales contract price. Rural Community Assistance Corporation (RCAC), shared lien holder, increased their loan amount as well. (An Intercreditor and Parity Agreement between HAC and RCAC was executed/recorded on May 10, 2013.)

- Between May 2015 and August 2017, RCAC approved (HAC concurred) four loan modifications summarized in the table, resulting in a \$590,129 loan increase from \$3,378,428 to \$3,968,557. (RCAC’s current balance is \$1,838,931). RCAC has indicate that if their loan is not fully repaid by November 2019, there is adequate equity to fund additional interest reserve, if necessary.

Modification No.	Amended Maturity Date	Interest Reserve	Fees	Total Increase
<b>Rural Community Assistance Corporation (RCAC)</b>				
1	05/01/2017	\$220,789	\$12,331	\$233,120
2	N/A	78,166	790	78,956
3	11/01/2017	105,914	3,595	109,509
4	11/02/2019	156,858	11,686	168,544
<b>Total RCAC</b>		<b>561,727</b>	<b>28,402</b>	<b>590,129</b>
<b>Hawaii Housing Finance and Development Corporation (HHFDC)</b>				
1	10/25/2017	351,800		351,800
2	04/25/2018			
3	04/25/2020	484,300		168,544
<b>Total HHFDC</b>		<b>836,100</b>		<b>836,100</b>
<b>TOTAL</b>		<b>\$1,397,827</b>	<b>\$28,402</b>	<b>\$1,426,229</b>

- Between June 2015 and May 2018, HHFDC, the subordinate lien holder, approved several loan modifications summarized in the table resulting in a \$836,100 loan increase from \$3,100,000 to \$3,936,100.
- 12/18/2015 – HAC’s Loan Committee extended the RHLF and HLP loan maturity dates from 05/10/2015 to 05/10/2017, with a one percent (\$22,886) extension fee assessed. The fee was added to the RHLF loan balance. In addition, if conventional financing is used, the loans could be extended for an additional year or until 05/10/2018.

**CURRENT PROJECT STATUS**

- **Disbursements:** \$ 1,979,048 in RHLF and \$712,283 in HLP. There is \$6,953 in RHLF funds available to cover the interest reserve.
- **Payments:** \$1,052,407 in RHLF and \$337,198 in HLP from the sale of 19 lots.
- **Infrastructure Status:**
  - Site is ready for the construction of 70 self-help units.
- **Homebuyer Loan Closing Status:**
  - SHHCH provided a revised Implementation Schedule (summarized below), with estimated timeframes for loan processing/closings and residential construction starts and completion dates.
    - Team 1 – 12 USDA 502 loans closed between April and September 2017; HAC received \$902,788.
    - Team 2 & 3 – 23 USDA 502 loans approved, with seven loans closed between March and May 2018; HAC received \$526,817.
    - Team 4 – SHHCH is currently working on loan packages and plans to submit docket to RD in July 2018.

Building Groups	Group Size	Loan Closing	Construction Start	Construction Completion
Team 1	12	April 2017	May 2017	October 2018
Team 2	12	April 2018	May 2018	April 2019
Team 3	11	May 2018	June 2018	May 2019
Team 4	10	October 2018	November 2018	October 2019
Team 5	13	January 2019	February 2019	January 2020
Team 6	12	August 2019	September 2019	August 2020
<b>Total</b>	<b>70</b>			

**LOAN REPAYMENT STRUCTURE**

- SHHCH is selling the Pokai Bay improved lots for \$170,000.
- Per the terms of the Intercreditor and Parity Agreement between HAC and RCAC, the net lot sales proceeds<sup>1</sup> shall be distributed as follows:
  - RCAC = 55.77% (\$94,809)
  - HAC = greater of 44.23% (\$75,191) or \$58,243 (minimum release price)
    - RHLF = greater of 32.56% (\$55,352) or \$42,873
    - HLP = greater of 11.67% (\$19,839) or \$15,370
- Both RCAC and HAC loans are anticipated to be fully repaid upon by the sale of the 39<sup>th</sup> lot in Team 4.

**SECURITY/COLLATERAL**

- Shared first lien with RCAC (\$1,838,127) on 51 improved lots in Ke Ola O Pakai Bay subdivision located along Leihoku Street in Waianae Valley, north of Ma’ili, in Waianae, Hawaii.

<sup>1</sup>Net Lot Sales Proceeds mean the sales priced of the lot less reasonable sales commission and closing costs.

- Between April 2017 and May 2018, 19 lots (64-68, 70, 72-74, 112-113, 115, and 117-123) were sold for \$170,000 each. The collateral value<sup>2</sup> of the remaining 51 lots, based on recent lots sales, is \$8,670,000).
- 36% LTV  $[(\$1,838,127 \text{ RCAC} + \$1,267,652) / \$8,670,000]$ .

#### FINANCIAL CONDITION

- **Audit (05/31/2016)** (SHHCH's 2017 audit is underway)
  - Unmodified opinion
  - \$10.2 million in total assets; a 18.1% decrease from FY 2015 (\$12.4 million) caused by sale in real estate held for development. The real estate owned by the organization is financed and lenders notes are secured by liens on specific properties.
  - \$10.3 million in total liabilities; a 17.30% decrease from FY 2015 (\$12.5 million) due to the paydown of notes payable held with RCAC, HHFDC, and HAC associated with four self-help projects – Pokai Bay, Kapaa, and Ma'ili.
  - Negative \$96,535 in unrestricted net assets; a 27.4% decrease from FY 2015 (\$75,760).
  - Total expenses of \$789,480 exceeded total revenues of \$768,705, resulting in a negative \$60,687 change in net assets. SHHCH's major source of revenue to support operations comes from its USDA RD 523 TA grant for self-help activities. Certain notes and grants allow for payment of administrative expenses; however, those fees are covered when the real estate is sold.
  - Key Ratios: Current = 0.15; Debt-to-Equity = 10,681%; and Debt = 89%
- **A-133 Audit (05/31/2016)**
  - Unmodified opinion
  - Federal awards include HUD's SHOP (HAC's HLP loan) and USDA Self-Help TA grant.
  - There were no audit findings, material weakness, or significant deficiencies.
- **Interim Financial Statements (02/28/2018)**
  - SHHCH's finances remain weak but have improved significantly due to the organization netting some cash from the sale of the last Ma'ili lots.
  - Net income for the first eight months (06/01/2017 to 02/28/2018) of the FY 2018 was \$66,000.

#### ADMINISTRATIVE FUNDING

- The current USDA RD 523 TA grant for \$893,302 (from 07/12/2016 to 07/12/2018) will support a portion of the Pokai Bay lots, SHHCH will request a no cost extension for their current grant.
- Once the \$961,802 cash bond<sup>3</sup> is released, \$480,901 will be distributed to RCAC (\$268,198) and HAC (\$212,703) to reduce the loan balances. The remaining \$480,901 be held by RCAC and released to SHHCH for ongoing operating and project-related expenses.

<sup>2</sup>The "as-is" appraisal (dated 08/01/2013) reflects an aggregate retail value of \$10,348,000, with lot values ranges from \$134,000 to \$180,000 depending on lot size (5,000 to 9,101 square feet). A recent USDA RD appraisal (dated 04/03/2018) shows a site value of \$236,000.

<sup>3</sup>RCAC provided a \$961,802 cash bond made in lieu of posting a "Repair and Replacement Bond" to the County of Honolulu. The bond is anticipated to be released in June/July 2018.

**COMMENTS/CONCERNS**

- SHHCH held off on marketing the Pokai Bay lots until all the lots were sold in its Ma’ili project. (HAC’s RHLF loan for this project was fully satisfied in November 2016.)

- Pokai Bay lots are far more superior, with ocean views and bigger lots, compared to the Ma’ili project. Based on lot sales of \$170,000, there will be sufficient proceeds to satisfy all lien holders and provide SHHCH with a surplus (see table) in operating funds that the organization has lacked.

Pokai Bay Project Economics at 05/10/2018	
Unsold lots (51 x \$170,000)	\$8,670,000
RCAC (shared first) balance	(1,838,127)
HAC (shared first) balance	(1,267,652)
Proceeds available after RCAC/HAC payoff	<b>5,564,221</b>
HHFDC (subordinate) balance	(3,936,100)
RCAC (LOC)	(100,000)
<b>Surplus</b>	<b>\$1,528,121</b>

- The project delays are caused by the long delays by RD staff in processing and closing the loans in a timely manner. SHHCH cannot submit loan dockets without first attaining permission from the RD Housing Chief. When permission is granted, SHHCH is only allowed to two loan dockets a week to be submitted and make sure that the RD staff can handle the work. It takes 4-6 weeks to close even after the RD staff has a complete loan closing packet.
- Per the Implementation Schedule, SHHCH anticipates closing on 45 lots by October 2018. To date, only 19 USDA 502 loans have closed. On average (from approval date to settlement date), the process took nine months to complete. Based on HAC’s experience with SHHCH and the ongoing loan processing delays by RD, it is highly unlikely that the 20 lots will be sold/loan closed by December 31, 2018 to satisfy HAC’s loan. Staff recommends extending the HAC loans until May 10, 2019.
- Last year, SHHCH was in discussions with First Hawaiian Bank (FHB) and submitted 10 loan dockets. Only three applicants were approved by FHB and the other applicants did not have enough savings or high enough FICO scores to qualify for a loan. So, SHHCH abandoned the idea of working with a conventional lender and will continue to use RD that are better at processing (although slow) and have more trained underwriters.
- For the loan modifications approved by RCAC and HHFDC, SHHCH was not required to directly pay any fees (extension or loan origination); the fees were added to the principal loan balance. Each lender increased their loan amounts to cover the additional interest reserve for the amended loan maturity date.
- Loan increases totaling **\$52,352** are needed to support the following:
  - RHLF interest reserve - The interest reserve calculated through May 2019 is \$46,628. Available interest reserve is \$6,953 and is not sufficient to carry through the loan extension period. An additional reserve of **\$39,675** is required.
  - RHLF/HLP loan extension fee – A one percent or **\$12,677** loan extension fee based on the outstanding loan balances as of May 10, 2018.
- If SHHCH’s RHLF and HLP loans are modified, concurrence is required by RCAC.

**RECOMMENDATION**

1. Extend the RHLF (#0-954-1302) and HLP (#174-1302) loans from May 10, 2018 until May 10, 2019.
2. Increase the RHLF loan for an interest reserve of \$39,675.
3. Increase the RHLF and HLP loans for the extension fee of \$12,677 (\$9,326 – RHLF and \$3,351– HLP).

Under the Executive Director's authority, as outlined in the HAC Loan Fund Policies, the following actions were taken:

#### LOAN MATURITY DATE/TERM EXTENSIONS

Loan Fund/Loan No.	Organization	ST	Net Principal Balance	Maturity Date	Amended Maturity Date	Fee Assessed
<b>April 13, 2018</b>						
SHOP 2013 (1-1712-1311)	Neighborhood Nonprofit Housing Corporation	UT	\$229,500	12/31/17	12/31/18	\$2,295
SHOP 2013 (1-1719-1610)	The Housing Assistance Corporation	NC	54,000	12/31/17	07/31/18	540
<b>April 24, 2018</b>						
SHOP 2013 (1-1706-1311)	Eastern Eight Community Development Corp.	TN	40,500	12/31/17	06/30/18	405
<b>May 9, 2018</b>						
SHOP 2013 (1-1715-1311)	Rural Housing Development Corporation	UT	202,500	12/31/17	12/31/18	2,025
<b>TOTAL</b>			<b>\$526,500</b>			<b>\$5,265</b>

#### COMMITMENT EXTENSIONS

Loan Fund/Loan No.	Organization	ST	Amount	Units	Expiration Date	Extension Date
<b>October 31, 2017</b>						
HLP (197-1609)	Mountainlands Community Housing Association	NC	\$250,000	25	10/31/17	04/30/18
SHOP 2015 (1-1902-1610)	Housing Development Alliance	KY	195,000	13	10/31/17	04/30/18
SHOP 2015 (1-1903-1610)	Kentucky Highlands Community Development Corp.	KY	182,000	13	05/31/17	10/31/17
<b>February 10, 2018</b>						
HLP (201-1702)	Frontier Housing, Inc.	KY	60,000	6	02/10/18	02/10/19
<b>March 29, 2018</b>						
SHOP 2016 (1-2006-1705)	Self-Help Enterprises	CA	405,000	27	03/31/18	04/30/18
<b>TOTAL</b>			<b>\$1,092,000</b>	<b>84</b>		

#### COMMITMENT REINSTATEMENTS

Loan Fund/Loan No.	Organization	ST	Amount	Units	Expiration Date	Extension Date
<b>October 31, 2017</b>						
SHOP 2014 (1-1814-1503)	Southern Appalachian Labor School	WV	\$60,000	4	09/30/17	03/31/18
HLP (184-1503)	Housing Development Alliance	KY	80,000	8	09/30/17	03/31/18
HLP (185-1503)	Kentucky Highlands Community Development Corp.	KY	40,000	4	09/30/17	03/31/18
HLP (188-1503)	Sacramento Neighborhood Housing Services	CA	50,000	5	09/30/17	03/31/18
<b>TOTAL</b>			<b>\$230,000</b>	<b>21</b>		

## SUMMARY OF SHOP AWARDS (as of March 31, 2018)

Round	AWARD			UNIT STATUS				
	Development <sup>1</sup>	Admin <sup>1</sup>	Unit Completion Deadline	Per Grant Agreement	Completed (a)	Underway <sup>2</sup> (b)	Outstanding (c)	Total Obligation (a+b+c)
<b>CLOSED</b>	<b>\$64,403,037</b>	<b>\$2,023,785</b>		<b>5,968</b>	<b>6,697</b>			<b>6,697</b>
<b>PENDING</b>								
2005	7,829,000	825,000	06/30/2017	545	554			554
2006	5,085,000	715,000	03/31/2017	345	347			347
2008	5,290,536	595,000	09/30/2017	402	363			363
2009	8,050,874	1,019,283	09/30/2018	541	514	55		569
2010	2,731,598	399,891	09/30/2015	182	143	42		185
2011	6,294,589	786,701	12/30/2015	492	394	46		440
2012	3,652,893	594,657	09/30/2016	244	237	12		249
	<b>38,934,490</b>	<b>4,935,532</b>		<b>2,751</b>	<b>2,552</b>	<b>155</b>		<b>2,707</b>
<b>ACTIVE</b>								
2013	2,340,072	506,731	12/31/2017	156	120	43		163
2014	1,315,440	250,560	03/31/2019	88	47	57	0	104
2015	873,600	166,400	09/30/2022	58	3	45	10	58
2016	962,235	183,300	03/31/2023	64	0	10	54	64
	<b>5,491,347</b>	<b>1,106,991</b>		<b>366</b>	<b>170</b>	<b>155</b>	<b>64</b>	<b>389</b>
<b>TOTAL</b>	<b>\$108,828,874</b>	<b>\$8,066,308</b>		<b>9,085</b>	<b>9,419</b>	<b>310</b>	<b>64</b>	<b>9,793</b>

**CLOSED**

Denotes a SHOP round in which both closeouts – financial (dollars) and program (units) – has occurred; all grant agreement obligations and reporting requirements with HUD are satisfied.

- **1996, 1998 through 2004, and 2007** - Collectively, 371 loans were formally forgiven totaling \$49,955,903.

**PENDING**

Denotes a SHOP round in which only the financial closeout has occurred, and program closeout is pending the completion of obligated units as documented in the financial closeout report submitted to HUD.

- **2005, 2006 and 2008** - On April 3, 2018, HAC submitted final grant documentation and a request for grant closeouts; all units are completed/conveyed and a response from HUD is pending. Combined, 72 loans were formally forgiven totaling \$10,169,076.
- **2009** - The financial close out report was submitted to HUD on June 28, 2013. All 569 units were due by December 31, 2014. HAC's CAP, approved by HUD on March 8, 2017, anticipates a September 30, 2018 grant completion date. [Formally forgave 25 loans totaling \$6,002,808.]
  - ***Change from 12/31/2017 quarter:*** Ten units completed. The remaining 55 lots/units are associated with three affiliates. On January 10, 2018 HUD approved HAC's requests to grant a waiver of the ENERGY STAR requirement for two affiliates who, although making good faith efforts, had been unable to receive certification for five units.

<sup>1</sup> This column reflects adjustments to amounts or units because of de-obligations and/or returned (recaptured) funds.

<sup>2</sup> Of the 310 lots/units underway, 147 have families identified.

By September 30, 2017, HAC had wired to the U.S. Treasury \$60,755 recaptured from three affiliates associated with six lots/units that would not be completed.

HAC is awaiting HUD's approval of the corrective action plans submitted on August 25, 2017 for SHOP rounds 2010, 2011, and 2012, with following revised grant completion dates:

	SHOP 2010	SHOP 2011	SHOP 2012
Original Grant Completion Date	09/30/2015	12/30/2015	09/30/2016
Revised Grant Completion Date	09/30/2018	03/31/2019	12/31/2018
<b>Plan of Action</b>			
Complete/convey units pending	<b>51</b>	<b>123</b>	<b>50</b>
Repay funds	8	0	0
<b>TOTAL</b>	<b>59</b>	<b>123</b>	<b>50</b>

- **2010** – The financial close out report was submitted to HUD on October 31, 2014. [Formally forgave seven loans totaling \$1,674,000.]
  - **Change from 12/31/2017 quarter:** None. The remaining 42 lots/units are associated with two affiliates.
- **2011** – The financial close out was submitted to HUD on November 25, 2015. The LOCCS expiration date was December 21, 2014. HAC was not able to deploy all funds by the deadline; \$1,065,590 in development funds and \$171,655 in administrative funds were de-obligated. [Formally forgave 18 loans totaling \$3,515,806.]
  - **Change from 12/31/2017 quarter:** Eight units were completed and conveyed. The remaining 46 lots/units are associated with four affiliates. On January 10, 2018 HUD approved two HAC requests: 1) to reallocate \$30,030 (2 units) recaptured from two affiliates to another affiliate who has now completed and conveyed the units and; 2) to grant a waiver of the ENERGY STAR requirement for an affiliate who, although making a good faith effort, had been unable to receive certification for 11 units.

By September 30, 2017, HAC wired to the U.S. Treasury \$15,000 recaptured from an affiliate associated with one lot/unit that would not be completed.

- **2012** – The financial close out was submitted to HUD on November 25, 2015. The LOCCS expiration date was August 15, 2015. All funds were drawn. [Formally forgave nine loans totaling \$2,272,065.]
  - **Change from 12/31/2017 quarter:** 11 units were completed/conveyed, the remaining 12 lots/units are associated with two affiliates.

## ACTIVE

Denotes a SHOP round in which funds are available in HAC's LOCCS account or all funds have been disbursed and HUD has not initiated close out.

HAC is awaiting HUD's approval of the corrective action plans submitted on January 3, 2018 for SHOP 2013, with following revised grant completion date:

	SHOP 2013
Original Grant Completion Date	12/31/2017
Revised Grant Completion Date	03/31/2019
<b>Plan of Action</b>	
Complete/convey units pending	<b>47</b>
Repay funds	0
<b>TOTAL</b>	<b>47</b>

- **2013** – HAC drew all funds from the LOCCS on October 25, 2016; however, HUD has not initiated financial close out. [Formally forgave seven loans totaling \$1,135,079.].
  - **Change from 12/31/2017 quarter:** One unit was completed/conveyed, the remaining 43 lots/units are associated with five affiliates.
- **2014** – HAC drew all funds from the LOCCS on February 2, 2018; however, HUD has not initiated financial close out. HAC disbursed \$1,315,440 for 104 lots.
  - **Change from 12/31/2017 quarter:** Eleven units were completed and conveyed, leaving 57 remaining lots/units associated with eight affiliates.
- **2015** – All funds must be drawn from LOCCS by July 20, 2019. HAC has disbursed \$545,528 for 48 lots.
  - **Change from 12/31/2017 quarter:** One affiliate closed on its loan (6 to date). Three units were completed and conveyed.
- **2016** – HAC was awarded \$1,145,625 (\$962,325 for lending and \$183,300 for administration) to produce 64 self-help units. The Loan Committee approved \$1,005,000 for 67 units. All funds must be drawn from LOCCS by March 15, 2020. HAC disbursed \$154,835 for 10 lots acquired.
  - **Change from 12/31/2017 quarter:** Two affiliates closed on their loans (3 to date). Three units are under construction.
- **2017** – The SHOP FY 2017 funding proposal was submitted for \$6.51 million, including \$1.32 million (20% of the request) for administration, to support 356 self-help housing units.

AS OF MARCH 31, 2018

Status/Organization	Maturity Date	Reason	Outstanding Principal Balance	Potential Forgivable Portion <sup>1</sup>	Loan Loss Reserve	Delinquent Amount	
<b>CURRENT</b>			\$21,539,629	\$8,415,360	\$2,113,812	\$0	
<b>DELINQUENT 90+ DAYS</b>			651,408	401,500	134,946	229,207	
<i>Business Research Institute</i>							
PRLF	0-021-1008	02/11/2021	USDA 515 foreclosure, no revenue stream	100,411	-	100,411	100,411
<i>Central Mississippi, Inc.</i>							
SHOP 2009	2-1303-1004	12/31/2017	Difficulty meeting the SHOP 2009 ENERGY STAR requirements; 2 lots remain	138,000	135,000	3,000	3,000
<i>Crawford-Sebastian Community Development Council, Inc.</i>							
SHOP 2011	1-1504-1111	12/31/2017	USDA RD slow at processing 502 loan applications; difficulty finding eligible buyers	265,500	256,500	1,530	9,000
<i>Crossville Housing Authority</i>							
HLP	181-1409	12/31/2017	Difficulty with homebuyers meeting HUD income eligibility requirements (CHA using USDA-RD income banding)	125,650	10,000	28,913	115,650
<i>New Horizons Unlimited, Inc.</i>							
PRLF	0-035-1412	07/15/2025	Property management company has been accustomed to having "payment coupons" to trigger their awareness of payment requirements for properties under management	21,847	-	1,092	1,146
<b>FORECLOSURE IN PROCESS</b>			175,825	-	175,825	175,825	
<i>Cape Fear Regional Community Development Corporation</i>							
RHLF	0-893-0702	03/31/2017	Lack of financing to develop project	175,825	-	175,825	175,825
<b>TOTAL</b>			<b>\$22,366,862</b>	<b>\$8,816,860</b>	<b>\$2,424,583</b>	<b>\$405,532</b>	

Delinquency rate = 1.81%

<sup>1</sup> The potential forgivable portion is based on funds disbursed, not units completed/conveyed to eligible homebuyers.