THE CITY OF ASHEVILLE

STAFF REPORT

Council Meeting Date: April 13, 2021

Subject: Mountain Housing Opportunities Loan Deferral

Staff Resource(s): Nikki Reid, Interim Community & Economic Development Director
Paul D'Angelo, CD Program Director
Marybrook Cox, CD Analyst

Action Requested: Approval of Mountain Housing Opportunities (MHO) request to extend the maturity dates of a total of five City of Asheville Rental Rehab for Owners and Tenants/Community Development Block Grant (CARROT/CDBG) loans valued at $683,028 and eliminate yearly interest payments in exchange for an additional 20-year affordability period and rent restrictions raised to 60% AMI from 50% AMI.

Background:

- From the early 1990s to the mid-2000s, MHO was committed to developing smaller, scattered site rental housing for some of the most low income households in Asheville.
- Utilizing Section 108 and CDBG loans from the City of Asheville, MHO acquired and renovated six older properties that created 22 affordable units.
- MHO primarily used the Section 108 funded CARROT (City of Asheville Rental Rehabilitation for Owners and Tenants) loan program which provided low interest rates for investors of affordable housing.
- Each of these loans will become due over the next four years.
- Between May 4, 2000 and March 15, 2004, the City of Asheville extended five (5) loans to MHO for the properties listed below:

Project	Units	Original Principal Balance	Anticipated Balance on 7/31/2021	Yearly Interest	Maturity Date	Affordability Period Extension	Source
61-63 Annandale	6	$212,450	$187,104.84	5.3%	5/1/2021	5/1/2041	CARROT
65-67 Annandale	7	$231,000	$218,204.29	5.3%	5/1/2021	5/1/2041	CARROT
65-67 Annandale	7*	$31,500	$31,500.00	0%*	5/1/2021	5/1/2041	CDBG
6 Trinity Chapel	1	$33,000	$23,631.10	3%	10/1/2023	10/1/2043	CARROT
280 Merrimon	8	$250,000	$222,884.86	2%	3/1/2025	3/1/2045	CARROT

*This loan does not have an interest rate. 65-67 Annandale utilized both a CDBG and CARROT loan. This is represented as two entries due to two loans on the same unit. These units should not be counted twice when tallying total units

- MHO has found that operating cash from older renovated properties is not sufficient to pay debt service and build replacement reserves for future capital needs due to the high maintenance costs associated with the age of the buildings.
- The properties currently operate at a break-even level.
- Per MHO, the pandemic has exacerbated this issue due to some tenants inability to pay rent.
- Deferring the debt will allow MHO to build the necessary reserves to maintain these aging properties.

- The Community Development Division attempts to work with our development partners who wish to extend their affordability periods, add additional affordable units, etc.
- If rents are raised to 60% AMI, this would apply only to new and future tenants. Existing tenants would not be affected by the increase in AMI.

Council Goal(s):
- Quality Affordable Housing

Committee(s):
- Housing & Community Development (HCD) - March 16, 2021 - Approved unanimously.

Pro(s):
- By approving MHO's request, affordable units are preserved for an additional 20 years while also protecting future program income that may result from the sale of a property or if units are no longer affordable.
- Units accept vouchers.

Con(s):
- The City will no longer earn approximately $25,000 annual interest on these loans.
- The interest is received as program income for Community Development Block Grant funding.

Fiscal Impact:
- No effect on the general fund.
- The loans were made using federal funding sources.
- When funds are returned to the City, funds would be reprogrammed for similar purposes.
- A balloon payment will be due at each of the new maturity dates.
- Each of these loans will be set up as no interest and no monthly payments.

Suggested Motion:
- Motion to approve Mountain Housing Opportunities' request to extend the maturity dates of a total of five CARROT/CDBG loans valued at $683,028 and eliminate yearly interest payments in exchange for an additional 20-year affordability period and rent restrictions raised to 60% AMI.

Attachment(s):
- Resolution

RESOLUTION NO. 21-_____

RESOLUTION APPROVING THE LOAN MODIFICATION REQUESTED BY MOUNTAIN HOUSING OPPORTUNITIES (“MHO”) TO ALLOW THEM TO MAINTAIN AFFORDABLE HOUSING CONDITIONS AT 61, 63, 65 AND 67 ANNANDALE, 6 TRINITY CHAPEL AND 280 MERRIMON AND AUTHORIZING THE CITY MANAGER TO EXECUTE ALL DOCUMENTS NECESSARY TO GIVE EFFECT TO THIS APPROVAL

WHEREAS, the City of Asheville executed loan agreements with MHO in the amounts, dates and addresses listed below, which were secured by a promissory note and deed of trust, for the production of twenty-two (22) affordable housing units; and

Project	Units	Original Principal Balance	Anticipated Balance on 7/31/2021	Yearly Interest	Maturity Date	Affordability Period Extension	Source
61-63 Annandale	6	$212,450	$187,104.84	5.3%	5/1/2021	5/1/2041	CARROT
65-67 Annandale	7	$231,000	$218,204.29	5.3%	5/1/2021	5/1/2041	CARROT
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WHEREAS, the term of each loan was to run for a period of twenty (20) years, wherein at its expiration the full principal amount was to be due in full; and

WHEREAS, in December 2020, MHO stated their intention to continue management of each of the properties’ twenty-two (22) units as affordable units for an additional period of twenty (20) years, and requested the terms of the loan be extended for a period of twenty (20) years to match the period of affordability and allow MHO to build reserves for capital improvements and other maintenance; and

WHEREAS, MHO also requests to eliminate yearly interest payments and raise the rent restrictions from 50% to 60% Area Median Income (AMI) for future tenants, and

WHEREAS, the modification of a CARROT or CDBG loan agreement requires formal approval by the Housing and Community Development Committee and the City of Asheville; and

WHEREAS, in March 16 2021, the Housing and Community Development Committee approved the request by MHO; and

WHEREAS, the actions described above would help maintain the financial condition of the property and ensure the maintenance of affordable housing units in the City of Asheville;

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF ASHEVILLE THAT:

The Loan Modification requested by MHO to modify the existing City CARROT/CDBG loans for the above properties by extending the loan period for an additional 20 years, eliminating interest payments and raising rent restrictions to 60% AMI is hereby approved and the City Manager of the City of

Asheville is hereby authorized to negotiate and execute any and all documents necessary to give effect to this resolution.

Read, approved and adopted this 13th day of April, 2021.

_____ _____

City Clerk Mayor

Approved as to form:

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City Attorney