

ALASKA HOUSING FINANCE CORPORATION BOARD CONSIDERATION MEMORANDUM

DATE: March 26th, 2008

ITEM: Multi-Family Loan Request

STAFF: Lindsey Cox

BORROWER: New Stuyahok Traditional Council

PURPOSE: Term loan financing for the development of teacher housing consisting of 12 units to be named "New Stuyahok Teacher Housing Apartments" and to be located on Main Street in New Stuyahok, Alaska.

PROPOSAL OVERVIEW:

Loan Amount:

First Deed of Trust:	\$ 1,000,050
Second Deed of Trust:	\$ 230,600
Total:	\$ 1,230,650

Project's Market Value: \$ 1,378,000 "At Stabilized Occupancy."

*Appraised by: Brian Bethard, MAI, appraiser with Black-Smith, Bethard, & Carlson, LLC, Commercial Real Estate Appraisers. See Appendix I.

Loan-to-Value Ratio:

First Deed of Trust:	73%
First & Second Combined:	89%

Loan Terms:

First Deed of Trust:	30 years amortizing fixed monthly payments.
Second Deed of Trust:	30 years amortizing fixed monthly payments (Please see Secondary Financing Section).

Interest Rate:

First Deed of Trust:	7.125%*
Second Deed of Trust:	1.500%**

*Rate is determined at the time of underwriting based on rural multi-family blended rate of 6.375% for the first \$250,000, and 7.375% for the remaining balance. These rates are based on AS 18.56.470(a) and what AHFC believes would be the cost of thirty (30) year taxable bond plus administrative and anticipated servicing costs, if it sold bonds at that time.

**To be funded from arbitrage. See Secondary Financing Section for further detail.

Debt Service Coverage Ratio:

First Deed of Trust:	1.15
First and Second Deeds of Trust:	1.02

(A debt service coverage ratio is the net income available after paying expenses divided by the loan payment and is used as a profitability indicator for the project)

Note:

The anticipated source of repayment is a triple net lease (Master Lease) executed between the New Stuyahok Traditional Council and the Southwest Region School District (SWRSD). A triple net lease is a lease in which the lessee pays rent to the lessor, as well as all taxes, insurance, and maintenance expenses that arise from the use of the property. The obligations under the master lease require the school district to make payments regardless of the project's occupancy. Therefore, payments to AHFC for the second deed of trust were amortized over the life of the loan instead of being based on as a percentage of cash flow.

It is important to consider the operating variables that are in play when using the debt service coverage ratio as a measure of project profitability. Typically, the variables of rent levels, project vacancy, and project operating expenses create cash flow uncertainty, which when offset by establishing a higher debt service coverage ratio provides for an acceptable risk addressing these fluctuations. Under the subject proposal, the master lease provides a stable repayment source without these variables, thus mitigating the need for a higher DSCR.

Development Costs:

See Appendix II for a detailed breakdown.

Total Costs	<u>\$ 4,522,500</u>
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Sources:

AHFC Teacher Housing Grant FY 06:	\$ 1,871,336
AHFC Teacher Housing Grant FY 07:	\$ 933,227
AHFC's First DOT:	\$ 1,000,050
AHFC's Second DOT:	\$ 230,600
Donated Labor:	\$ 310,000
<u>SWRSD Cash:</u>	<u>\$ 177,287</u>
Total:	\$ 4,522,500

- 100 K From Grant

CORPORATE STRUCTURE:Principals:

New Stuyahok Traditional Council, a federally recognized tribal entity within the State of Alaska, adopted their revised constitution and bylaws on March 12, 1992 establishing a governing body made up of seven members known as the New Stuyahok Traditional Council. Council members are elected from the New Stuyahok Village enrolled members and are eligible to sit on the Council if they are at least 18 years of age and have been living in the village for at least twelve months directly preceding the election. The New Stuyahok Traditional Council is recognized by the Federal Government to carry out local governmental

activities for the people of New Stuyahok Village. The New Stuyahok Traditional Council is comprised of a President, Vice President, Secretary, Treasurer, and three elected council members. The tribal council is empowered to act on behalf of the village in an operating and administrative capacity, including management of tribal property.

Stuyahok Limited:

An Alaska corporation is a for-profit subsidiary of the New Stuyahok Village and is the entity that will lease the land to the New Stuyahok Village for development of the project. **See Appendix III.**

Financial:

The New Stuyahok Traditional Council submitted financial statements dated September 30, 2007 reflecting the following: (i) total assets - \$344,411; (ii) total liabilities - \$12,950; (iii) for a fund equity of - \$331,461. The borrower's sources of revenue consist of federal, State, and other grants and contracts which are generally of a cost-reimbursement type.

The Southwest Region School District, as tenant, submitted audited financial statements dated June 30, 2006 reflecting the following: (i) total assets - \$70,385,130; total liabilities - \$1,928,927; (iii) for a fund equity of \$68,456,203. The District's sources of revenue consist of local, state, and federal funds as allocated annually by the District's Board of Directors.

Credit:

The New Stuyahok Traditional Council has acceptable credit with no derogatory references, and no loan with AHFC.

Developer:

Venture Development Group, LLC will act as the developer of the project in conjunction with the general contractor, Sundance Construction Company, Inc., and the architectural firm Bezek Durst Seizer, Inc.

PROJECT CHARACTERISTICS:

Location and Site Description:

The community of New Stuyahok is located approximately 52 miles northeast of the City of Dillingham in the southwestern portion of the state of Alaska. The project site is located approximately three-quarters of a mile east of downtown New Stuyahok on Main Street. The immediate neighborhood is predominantly undeveloped land, with over 30 single-family homes that have been constructed over the last several years. The New Stuyahok School, serving K-12, is directly across Main Street from the subject site. The subject site is comprised of one lot containing 248,467 square feet and is at street grade. Public utilities include water, electric and telephone. A connection to the sewer system is not possible until the lagoon is upgraded for additional connections. A community leader states that this is to be completed by the end of 2008. There is an available septic system that can be expanded if the sewer system expansion is not completed. **See Appendix IV.**

Note:

DEC approval of the expanded septic system, or a connection to the public water and sewer system will be made a condition of the loan commitment.

Project Overview:

New Stuyahok Teacher Housing apartments will consist of two, two-story, wood framed, townhouse-style four-unit apartment buildings and one, two-story, wood framed, four-unit apartment building. The improvements will sit on a pier foundation with 2x12 plates and 2x6 wall studs; there will be bituthane sheeting for a waterproof barrier around the foundation. The buildings will be finished with vinyl siding, and covered with a metal roof. Interior finishes will be painted and textured gypsum board with carpet/vinyl floor coverings. The two, two-story townhouse-style buildings will consist of three, two-bedroom, one-bath units, each containing 964 square feet, and an ADA compliant three-bedroom, two-bath, unit containing 1,295 square feet. The two-story, four-unit apartment style building will consist of four, two-bed, one-bath units each containing 710 square feet. Each building will have individual, exterior entrances for each unit. Each building will also have an oil-fired hot water boiler heating system providing hot water baseboard heating with individual heat controls in each unit. Appliances for each unit will include a range/oven, dishwasher and refrigerator. The townhouse units will have washers/dryers in each unit as well as an extra freezer. The apartment style building will have a common washer/dryer located in the utility room. Parking will be provided by open, gravel covered areas around the project which is considered adequate for a project of this size and location. The project will be a legal conforming use of the site at the time of completion and the appraiser estimates the economic life upon completion to be 50 years. **See Appendix V for additional information.**

Soil Conditions:

The appraiser notes that the soils are assumed to be adequate for this development. Evidence that the soils are suitable for the project and/or that the project was properly constructed to compensate for any soil deficiencies will be a condition of the commitment contract.

Environmental Assessments:

Preliminary site environmental research completed as part of the grant application process indicates that the property is free from environmental concerns. A completed environmental assessment acceptable to AHFC will be made a condition of the commitment.

PROJECT OPERATIONS:

Pro-Forma Statement:

Staff reviewed the application, appraisal, and the Master lease in developing the pro-forma operating budget and believes it fairly depicts the expected performance of this project based on the terms of the master lease. Ground rents are based on the average rents over the life of the lease and replacement reserves are based on the staff's projections. Based on data provided by the appraiser, borrower, and the market study report, it is anticipated that this property will maintain a high occupancy rate due to it being a good quality new project, with large units and its superiority to the existing inventory. Staff concurs with this assessment noting the lack of available teacher housing in the New Stuyahok area. **See Appendix VI.**

Debt Service Coverage Ratio:

The 1.02 combined debt service coverage ratio on the repayment of the first and second deed of trust loan is, by industry standards, considered to be a low ratio. However, it is

important to note that the master lease will provide a consistent monthly cash flow regardless of project expenses or occupancy patterns, thus providing a stable repayment source for the debt service. The 1.02 debt service coverage also allows for the maximum payment amount under the terms of the ground lease.

Unit Set-Asides and Rent Restrictions Required by AHFC's Grant Agreement:

The borrower has elected to set aside 100% of the 12 available units for tenants that are certified teachers or health care professionals. Rents will be established by employment contracts.

Rent-up Reserve:

Considering that the master lease obligates the lessee to remit scheduled monthly payments and to pay the project's monthly operating expenses whether the project is occupied by teachers or not, there is not a need for a rent-up reserve.

Loan-to-Value:

The combined loan-to-value ratio of 89% is not considered within normal parameters of traditional private sector underwriting. The request for a higher loan-to-value is not unprecedented for AHFC as other loans with similar characteristics have been made and or committed to under the program. Additionally, higher loan-to-value financing is provided by other investors such as Fannie Mae's DUS program which allows for a loan-to-value of 90% with a debt service coverage of 1.15%, HUD's 221(d)(4) program which allows for a 90-95% LTV, and in some instance may be as high as 100%. The loan is believed to be an acceptable risk in consideration of the following: The primary concern with regards to the loan-to-value on a project is whether the lending entity has sufficient collateral in the event of foreclosure. If the probability of foreclosure is mitigated, the loan-to-value becomes less of a concern. It is believed that probability of foreclosure is mitigated for the following reasons:

- (a) The master lease pays a base rent that does not fluctuate over the term of the loan, regardless of occupancy, rent levels, or operating expenses; and
- (b) It is anticipated that the state and federal funding sources supporting tenant operations will not diminish to the extent that the tenant is unable to honor the terms of the master lease.

SECONDARY FINANCING STRUCTURING:

Second Deed of Trust:

- a. Amount: \$230,600
- b. Interest Rate: 1.50% amortized over 30 years with fixed monthly payments.
- c. Final payment of principal and interest, if any, due on the same date as the final payment on the loan secured by the first deed of trust. It is anticipated that the loan and interest will be paid off by year thirty (30).

Note:

A second deed of trust arbitrage loan is necessary in consideration that if the total requested debt of \$1,230,650 was structured as one loan at a rate of 7.125% and amortized over a 30 year period, the forecasted debt service ratio becomes .93, which indicated there is insufficient cash flow to support the debt service.

COMMUNITY SUPPORT:

Letters of support are included in Appendix VII.

COMMUNITY OPPOSITION:

The borrower and staff are not aware of any community opposition.

PROPERTY MANAGEMENT:

Rick Dallman, Director of Facilities for Southwest Region School District, will be the property manager. Staff concurs that his local knowledge and presence will provide adequate management for the property. The Servicer will be performing annual monitoring of the property manager's maintenance practices and management efforts. See Appendix VIII for additional information.

JOB TRAINING:

Job training will be provided in both construction training and property maintenance training. See Appendix IX for additional information.

STRUCTURING OF PROJECT FUNDING:

First National Bank Alaska will provide the construction financing with AHFC's Planning Department managing the teacher grant disbursements.

RECOMMENDATION:

New Stuyahok Village, by and through the New Stuyahok Traditional Council has presented the corporation with an opportunity to assist in a unique multi-layered financed development for the purpose of providing safe and needed teacher housing in New Stuyahok.

The request falls within the parameters of the Multi-Family Loan Program; it is reasonable to expect that the loans will be repaid; and it is considered to be an acceptable risk; therefore, Staff recommends approval of the request subject to the conditions noted below.

COMMITMENT CONDITIONS:

1. Alaska Housing Finance Corporation (AHFC) to provide long term financing in an amount not to exceed \$1,230,650, distributed as follows:

- a. First deed of trust in the amount of \$1,000,050 amortized over thirty (30) years with fixed monthly payments. Interest to be 7.125% at AHFC's thirty 30 year taxable cost of funds including administrative and servicing costs;
 - b. Second deed of trust in the amount of \$230,600 amortized over thirty (30) years with monthly payments at an interest rate of 1.50%;
2. A security position in the appropriate personal property, fixtures, furniture, and contracts, etc. will be taken;
3. If the costs, (as determined and certified by a qualified preparer), including the rent-up reserve, are less than projected, at the discretion of AHFC, the reduction in costs will be applied to lower the loan amount. The qualified preparer and the form of the cost certification must be acceptable to AHFC;
4. AHFC may fund the loan from working capital or from its selection of a bond market placement or other sources which are the most attractive to it;
 - a. The committed interest rate on the first deed of trust loan is a fixed rate and not subject to adjustment in the event AHFC elects to fund the first deed of trust loan from a source of funds that has an effective rate, as computed by AHFC, that varies from the committed rate;
 - b. The committed interest rate on the second deed of trust loan is a fixed rate and not subject to adjustment in the event AHFC elects to fund the second deed of trust loan from a source of funds that has an effective rate, as computed by AHFC, that varies from the committed rate;
5. Borrower to be New Stuyahok Traditional Council;
6. Commitment to expire March 26, 2009;
7. A loan prepayment limitation will be imposed in accordance with AHFC's financing requirements;
8. Acceptance by AHFC of the following:
 - a. the project developer;
 - b. the project general contractor;
 - c. the projects architect;
 - d. the project engineer; and
 - e. the property management entity.
9. Receipt and acceptance by AHFC of the following:
 - a. environmental assessment report acceptable to AHFC;

- b. a copy of the final plans and specifications;
- c. evidence that the soils are suitable for the project and/or that the project was properly constructed to compensate for any soil deficiencies;
- d. the general contractor's warranty which at a minimum is for one (1) year for all work performed and materials provided as part of the construction contract;
- e. an executed "Summary of Building Inspection" (AHFC Form #PUR-102) unless otherwise approved by AHFC;
- f. evidence that the construction of the project was in compliance with the thermal and lighting energy standards as required by AS 46.11.040 and the building and energy efficiency standards of AHFC's regulations delineated in 15 AAC 155.010 - 155.030; in the form of a duly completed Building Energy Efficiency Standards (BEES) Certification (AHFC Form PUR-101);
- g. a final appraisal inspection and certification that the project was built substantially in accordance with the accepted plans and specifications as identified in the original appraisal report, subject to any AHFC approved change orders;
- h. a certification by the project architect which states that:
 - (i) the project was constructed substantially in accordance with the accepted plans, specifications and approved change orders;
 - (ii) the project was constructed in accordance with applicable building codes and regulations;
 - (iii) the project is suitable for occupancy; and
- i. a detailed breakdown of final development costs as adjusted by change orders;
- j. an accountant's (or another source acceptable to AHFC) written certification verifying the final total development cost of the project;
- k. ALTA title policy with applicable endorsements;
- l. an As-Built Survey;
- m. all required certificates and/or binders of insurance;
- n. assignment of the master lease acceptable to AHFC;
- o. assignment of the Ground Lease acceptable to AHFC;

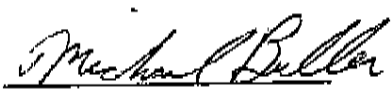
- p. a letter of opinion from the borrower's legal counsel verifying such matters as their legal entity, ability to enter into closing documentation, zoning compliance, permitting and licensing requirements, etc.; and
- q. Final DEC approval of the on-site water and septic system, or confirmation of public water and sewer installation as determined by AHFC.
- 10. Monthly loan payment to include funds, as determined by AHFC, for (i) principal and interest, and (ii) reserves property replacement;
- 11. Borrower to sign all necessary closing documentation, or provide any additional data, as determined necessary by AHFC, to effect the loan closing;
- 12. Borrower to pay appropriate cost associated with the loan, including but not limited to recording, title insurance, escrow closing fee, loan fee, and legal fee for documentation preparation and review;
- 13. The payment of an \$11,729.86 loan fee;
- 14. A commitment fee of \$5,864.93 will be required upon acceptance of the commitment with said amount being credited against the loan fee at the time of closing. Payment of the commitment fee must be made within 30 days from the date of the commitment letter; and
- 15. Other conditions that may arise as determined by AHFC.

Reviewed and accepted by Senior Staff as substantively stated in this loan consideration memorandum subject to board of director's approval:



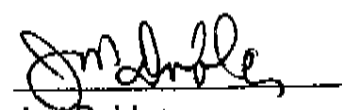
Daniel R. Fauske
CEO, Executive Director

Date: 3-18-08



Michael Buller
Deputy Executive Director

Date: 3/18/08



Joe Dubler
Chief Financial Officer

Date: 3/18/08

**ALASKA HOUSING FINANCE CORPORATION
RESOLUTION NO. 2008-**

Resolution Approving Funds for the Term Financing
of a
Multi-Family Housing Project
For
New Stuyahok Village Council

BE IT RESOLVED by the Board of Directors of the Alaska Housing Finance Corporation as follows:

I. Findings:

- A. There is need to provide safe, quality, and accessible housing;
- B. The borrower has applied to Alaska Housing Finance Corporation under its Multi-Family Housing Loan Program, to provide funds for the term financing of a multi-family housing project located in New Stuyahok, Alaska;
- C. The purpose of the financing is to provide additional housing opportunities in New Stuyahok;
- D. The proposed financing falls within the established program regulations; and,
- E. The proposed financing is found to be an acceptable risk to the Alaska Housing Finance Corporation.

II. Conclusion:

Pursuant to the foregoing findings, the Board hereby approves the request substantively as stated in the March 26, 2008 Board Consideration Memorandum prepared in support of the application.

This resolution shall take effect immediately.

DATED THIS 26th Day of March, 2008

Frank Roppel
Chair



Headquarters
4300 Boniface Parkway
Anchorage, Alaska
907-338-6100

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Internet Web Site
<http://www.ahfc.state.ak.us>

March 26, 2008

Venture Development
425 G Street, Suite 210
Anchorage, Alaska 99501
Attn: Kathy Gates

Re: AHFC #198826 Commitment Letter
New Stuyahok Teacher Housing

Dear Ms. Gates:

As you are aware, the application submitted for "New Stuyahok Teacher Housing" for the term financing of 12 units of multifamily teacher housing has been conditionally approved by Alaska Housing Finance Corporation's (AHFC) Board of Directors at the March 26, 2008 meeting.

This correspondence is intended to serve as the conditional commitment for the above referenced loan. The conditions for the permanent financing approval are noted below, and further include the terms and conditions and project characteristics as noted in the Board Consideration Memorandum, unless specifically otherwise approved in writing by AHFC.

1. Alaska Housing Finance Corporation (AHFC) to provide long term financing in an amount not to exceed \$1,230,650, distributed as follows:
 - a. First deed of trust in the amount of \$1,000,050 amortized over thirty (30) years with fixed monthly payments. Interest to be 7.125% at AHFC's thirty 30 year taxable cost of funds including administrative and servicing costs;
 - b. Second deed of trust in the amount of \$230,600 amortized over thirty (30) years with monthly payments at an interest rate of 1.50%;
2. A security position in the appropriate personal property, fixtures, furniture, and contracts, etc. will be taken;
3. If the costs, (as determined and certified by a qualified preparer), including the rent-up reserve, are less than projected, at the discretion of AHFC, the reduction in costs will be applied to lower the loan amount. The qualified preparer and the



"HOUSING FOR ALASKANS"



form of the cost certification must be acceptable to AHFC;

4. AHFC may fund the loan from working capital or from its selection of a bond market placement or other sources which are the most attractive to it;
 - a. The committed interest rate on the first deed of trust loan is a fixed rate and not subject to adjustment in the event AHFC elects to fund the first deed of trust loan from a source of funds that has an effective rate, as computed by AHFC, that varies from the committed rate;
 - b. The committed interest rate on the second deed of trust loan is a fixed rate and not subject to adjustment in the event AHFC elects to fund the second deed of trust loan from a source of funds that has an effective rate, as computed by AHFC, that varies from the committed rate;
5. Borrower to be New Stuyahok Traditional Council;
6. Commitment to expire March 26, 2009;
7. A loan prepayment limitation will be imposed in accordance with AHFC's financing requirements;
8. Acceptance by AHFC of the following:
 - a. the project developer;
 - b. the project general contractor;
 - c. the projects architect;
 - d. the project engineer; and
 - e. the property management entity.
9. Receipt and acceptance by AHFC of the following:
 - a. environmental assessment report acceptable to AHFC;
 - b. a copy of the final plans and specifications;
 - c. evidence that the soils are suitable for the project and/or that the project was properly constructed to compensate for any soil deficiencies;
 - d. the general contractor's warranty which at a minimum is for one (1) year for all work performed and materials provided as part of the construction contract;
 - e. an executed "Summary of Building Inspection" (AHFC Form #PUR-102) unless otherwise approved by AHFC;

- f. evidence that the construction of the project was in compliance with the thermal and lighting energy standards as required by AS 46.11.040 and the building and energy efficiency standards of AHFC's regulations delineated in 15 AAC 155.010 - 155.030; in the form of a duly completed Building Energy Efficiency Standards (BEES) Certification (AHFC Form PUR-101);
 - g. a final appraisal inspection and certification that the project was built substantially in accordance with the accepted plans and specifications as identified in the original appraisal report, subject to any AHFC approved change orders;
 - h. a certification by the project architect which states that:
 - (i) the project was constructed substantially in accordance with the accepted plans, specifications and approved change orders;
 - (ii) the project was constructed in accordance with applicable building codes and regulations;
 - (iii) the project is suitable for occupancy; and
 - i. a detailed breakdown of final development costs as adjusted by change orders;
 - j. an accountant's (or another source acceptable to AHFC) written certification verifying the final total development cost of the project;
 - k. ALTA title policy with applicable endorsements;
 - l. an As-Built Survey;
 - m. all required certificates and/or binders of insurance;
 - n. assignment of the master lease acceptable to AHFC;
 - o. assignment of the ground lease acceptable to AHFC;
 - p. a letter of opinion from the borrower's legal counsel verifying such matters as their legal entity, ability to enter into closing documentation, zoning compliance, permitting and licensing requirements, etc.; and
 - q. Final DEC approval of the on-site water and septic system, or confirmation of public water and sewer installation as determined by AHFC.
10. Monthly loan payment to include funds, as determined by AHFC, for (i) principal and interest, and (ii) reserves property replacement;

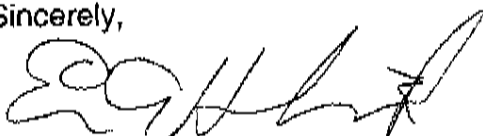
- 11. Borrower to sign all necessary closing documentation, or provide any additional data, as determined necessary by AHFC, to effect the loan closing;
- 12. Borrower to pay appropriate cost associated with the loan, including but not limited to recording, title insurance, escrow closing fee, loan fee, and legal fee for documentation preparation and review;
- 13. The payment of a \$5,864.94 loan fee;
- 14. A commitment fee of \$2,932.47 will be required upon acceptance of the commitment with said amount being credited against the loan fee at the time of closing. Payment of the commitment fee must be made within 30 days from the date of the commitment letter; and
- 15. Other conditions that may arise as determined by AHFC.

This conditional commitment letter is not assignable and may be terminated by AHFC in the event that any of the above conditions are not met, unless otherwise specifically approved by AHFC in writing. Further, if any information submitted to AHFC in support of the application is found to be false, inaccurate, or incomplete, this conditional commitment may be voided at AHFC's sole discretion.

Alaska Housing Finance Corporation is pleased to offer you the aforementioned loan terms and conditions and is looking forward to working with you in the continued development of the project.

Upon receipt of the signed letter of commitment, AHFC will instruct its attorney to provide the title company of your choice with closing documents.

Sincerely,



Eric A. Havelock
Multifamily Underwriting Supervisor

The conditions of this commitment letter dated March 26, 2008 are hereby accepted.

New Stuyahok Traditional Council

By: _____
Its: President