



**San Diego Housing Commission
Finance Plan to Expand Affordable Housing**

Finance Plan-Staff Recommendations

1. Approve finance plan to generate new affordable housing by placing debt on SDHC's portfolio
2. Authorize SDHC to refinance the new affordable housing to further leverage the cash into more new affordable housing
3. Approve the parameters for financing as coordinated by NorthMarq and analyzed by Keyser Marston

The HUD Mandate

In September 2007, SDHC received HUD approval



Transition out of the Public Housing Program



Own and operate the same 1,371 units



Housing Choice Vouchers given to each resident

The HUD Mandate Continued:

SDHC is obligated to:

-  Leverage the equity in the 1,371 units
-  Create a minimum 350 additional affordable units
-  To be rented at 80% AMI or below
-  Units will be affordable for 55 years

Here's how we're going to get there

Mortgage existing portfolio of apartment complexes of 5 units or greater

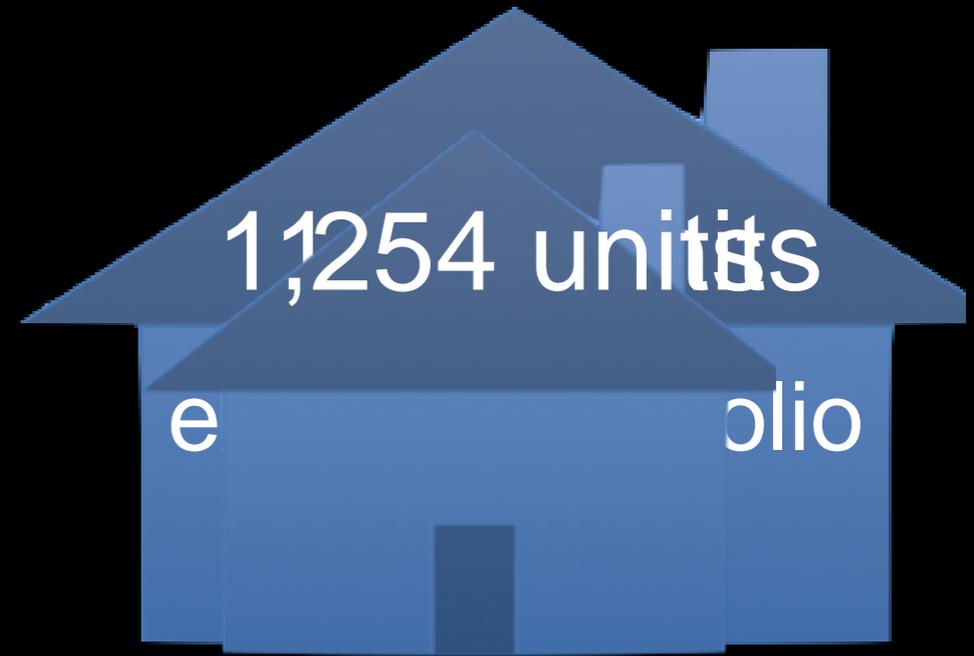


Mortgages to generate \$102 million in equity to be used for property acquisitions



Refinance new acquisitions to acquire more affordable rental homes

Portfolio of 1,141 units in equity



Fannie Mae

40%
public/private

FHA loans

excluding 1-4's
117 units

60%
BABs

What is BABs?

Build America Bonds (“BABs”)

-  Interest rebate program offered by federal government under ARRA
-  35% interest rebate for entire term of loan
-  FHA 223 (f) program-35-year loan term

Proceeds from BABs-qualified FHA financing will be used to acquire properties that:

- Are owned solely by a municipality (non-private)
- Qualify for tax-exempt financing

 Program sunsets 12/31/10

 Proceeds must be deployed in BABs qualified investments within 3 years

 Not necessarily a bond

Step One: First Phase of Acquisitions with **FHA**

-  Financing produces 60% of the original \$102 million used to acquire entirely publicly-owned properties
-  Acquisitions are BABs eligible and qualify for BABs interest rebate
-  To maximize use of this financing, pay cash
-  Produces about **550 rental homes**
-  BAB's interest rebate of \$1,220,000/ year

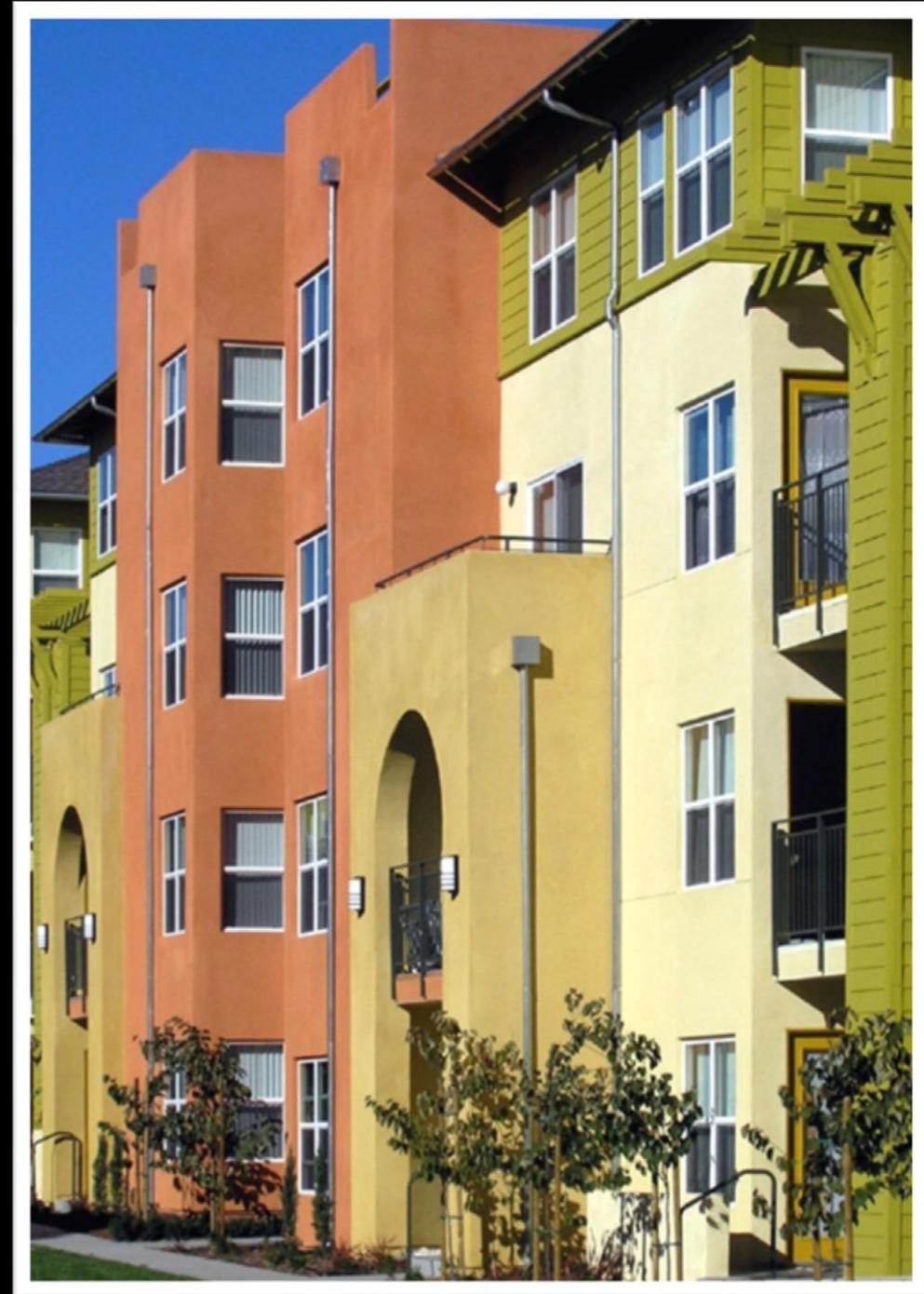
FHA

Step One (continued): First Phase of Acquisitions with **Fannie Mae**

-  Produces 40% of the \$102 million
-  Financing will be used to acquire properties in public/private partnerships (not eligible for BABs)
-  Produces about **365 rental homes**

Fannie Mae

First phase of
acquisitions
produces
915
new affordable
rental homes



Step Two: Second Phase of Acquisitions



Once stabilized, the BABs qualified properties purchased with cash will be re-financed with mortgages



The new mortgages will generate additional proceeds as equity for re-investment



BAB's interest rebate of about \$170,000 a year

Step Two (continued): Second Phase of Acquisitions

-  Additional equity will allow for 120 additional units
-  The second phase of acquisitions must be completed by December 31, 2010 to be BABs qualified

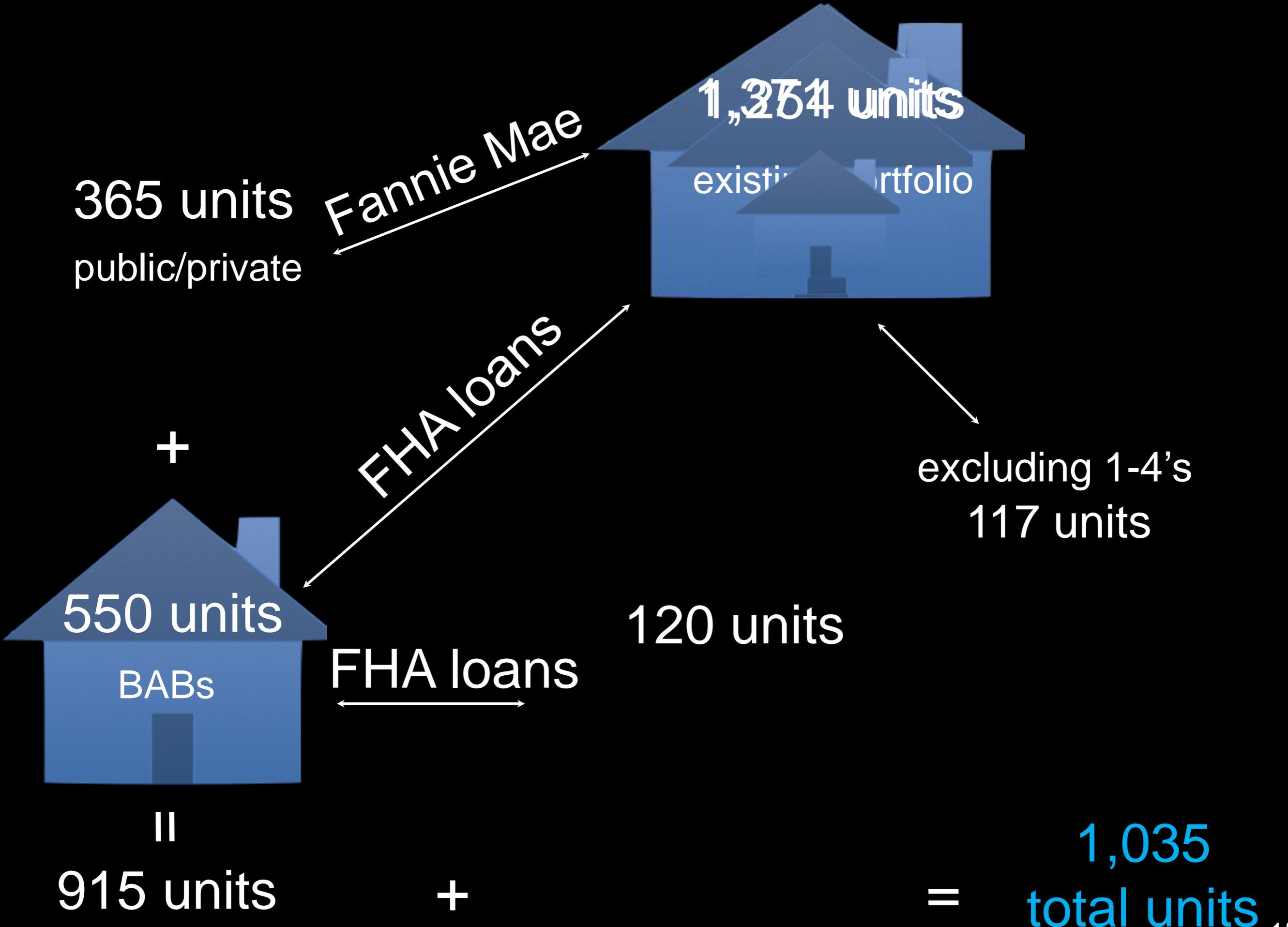
Second phase of
acquisitions produces

120

new affordable
rental homes

for a total of **1,035** new
affordable rental homes in
San Diego





Underwriting Parameters	FHA/Fannie Mae Program Limits	SDHC Proposal
Total Estimated Value	\$141.0 MM	\$141.0 MM
Maximum Loan to Value	80%-85%	70%-75%
Maximum Loan Amount	\$116.7 MM	\$102.6 MM
Interest	6.0%-6.25%	6.0%-6.25%
Term (Years)	30-35	30-35
Annual Debt Service	\$8.3 MM	\$7.7 MM
Actual DCR	1.27	1.37

Underwriting Parameters	FHA/Fannie Mae Program Limits	SDHC Proposal
Estimated # of Units Acquired	1,200	1,035
Cash Flow	\$2.8 MM	\$3.4 MM
BABs Interest Rebate	\$1.5 MM	\$1.3 MM
1-4 Cash Flow	\$913.0 M	\$913.0 M
New DSC	1.57	1.67

Goals: Balanced, Stabilized Portfolio

-  New acquisitions to be approved by SDHC's Board of Commissioners
-  Continual assessment of underwriting in relationship to portfolio
-  Report annually to SDHC on status of portfolio

Questions?