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May 31, 2024

Jenny Carloni
Housing Officer, Housing Division
City of Sunnyvale
456 W. Olive Avenue,
Sunnyvale, CA 94088-3707

Re: Carroll Inn- City of Sunnyvale Loan Extension Request

Dear Jenny,

The letter is made in reference to a previous request to modify the terms of a loan held by the City of Sunnyvale to that certain 122-unit affordable housing project commonly known as Carroll Inn (the "Property"). The primary objective for this modification is to extend the loan that matured in March 2024. The original request was tendered on January 18, 2024 and presented to the Housing and Human Services Commission ("HHSC") on March 27, 2024.

Background

Carroll Street Associates ("Owner"), a California limited partnership is the owner of the Property. In March of 1994, the City provided the Property a residual receipt loan in the original amount of $964,750 with 3% simple interest (the "City Loan"). Of the original loan, $750,000 is not payable from residual receipts and deferred to and due at maturity together with accrued interest. The remaining principal amount of $214,750 and accrued interest is payable from any excess cash flow available after funding all Property operating expenses. As of December 31, 2023, the loan had a principal balance of $750,000 with accrued interest of $669,519. The City has agreed to suspend repayment while this modification is pending approval.

HHSC Request

During the March 27, 2024 HHSC meeting, the commission requested that the borrower and City staff review the financing of the project and the proposed terms of the modification. More specifically, the commission requested the exploration of the following modifications to the loan: mandatory monthly debt service with a 20- to 25-year amortization and the forgiveness of accrued interest. The commission requested that the borrower bring back a new proposal.

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Amended Proposal
The Property is regulated by the California Department of Housing and Community Development ("HCD"), having provided a residual receipt loan under the Rental Housing Construction ("RHCP") program in first lien position on the Property. The HCD RHCP regulatory agreement and program guidelines govern the allocation of excess cash flow and residual receipts from the Property. HCD will not permit that the City loan take priority over the HCD RHCP loan in the form of mandatory debt service payments.

While we appreciate and would love to take the opportunity to receive forgiveness on the accrued interest, we do not have the means to prioritize the loan repayment as proposed.

With respect to the term of the loan extension, we had previously requested another 55-years, mirroring the extension on the correlating City's regulatory deed restrictions to low-income housing. This term represents an industry standard for residual receipt debt and regulatory terms. However, so long as the maturity dates of senior debt extends beyond that of subordinate debt (i.e., this loan matures after the maturity of the HCD RHCP loan in March 2049), we will be able to obtain the prerequisite approvals of HCD for this modification.

We appreciate the ongoing investment and partnership with the City in serving this low income community. The subsidy to the Property and to the benefit of its low and extremely low-income residents provided by the City and the other public lenders has been critical to maintaining an affordable, healthy, and vibrant community. MidPen serves as a proud and committed steward of this public investment and to the mission of ensuring that this Property continues to bring stability and opportunity for generations to come.

Cordially,

DocuSigned by:
Kyle Attenhofer
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Kyle Attenhofer
Senior Vice President of Asset & Budget Management