



BARNSTABLE COUNTY HOME CONSORTIUM

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TO: Advisory Council
FROM: Paul Ruchinkas (PR)
DATE: December 14, 2012
RE: Community Development Partnership (CDP) Refinancing Request
Gull Cottages- 885 State Highway- Eastham, MA

BACKGROUND:

Gull Cottages is a 5 unit all affordable family rental development that the CDP developed in 2000 and manages. The County and Consortium provided two sources of funding for the project: \$115,000 in HOME and \$51,000 in Barnstable County Rental Program funds (back when the County had surpluses and allocated some to affordable housing). Mortgages for each source were recorded on August 24, 2000. The other public sources of funding for the project were DHCD's Housing Development Support Program for \$262,750 and Mass Housing for \$35,000. Cape Cod Five provided the construction financing as well as the permanent financing.

Enclosed is a copy of the CDP's request to refinance the property that would necessitate the County's subordination of our two mortgages to the new first mortgage along with a copy of the Consortium's refinancing policy.

RECOMMENDATION:

As described in the request, the CDP wants to use the proceeds from the refinancing and other of its own sources in order to make approximately \$90,000 of primarily exterior repairs on two of the five buildings. The existing Cape Cod Five mortgage is \$119,000 with approximately \$104,200 outstanding while the MassHousing payoff amount is approximately \$12,900. The new first mortgage will be \$165,900; therefore, the CDP's estimate of a net of \$46,000 from the refinancing appears reasonable. The CDP has provided staff with documentation of the remaining two sources for the rehab: \$10,000 available in the project's replacement reserve account and \$34,000 remaining from the Real Return grant the CDP received to do energy efficiency upgrades at properties in their portfolio.

As noted in CDP's request, although the CDP's mortgage will increase from \$119,000 to \$165,900, it is exchanging a 9% interest rate for a 4.2% rate and will therefore reduce its mortgage payments by \$78 per month. The new mortgage has a 20 year term, and the 4.2% rate is fixed for the first five years and will adjust every five years thereafter.



The HOME and County mortgages will be in second and third positions behind Cape Cod Five's \$165,900 first mortgage. The as completed appraised value of the property is \$280,000; therefore, there is some potential equity available should the property encounter financial difficulties. It is common for HOME and other public lenders mortgages to be "under water" from project inception on virtually any affordable rental development.

The request satisfies the refinancing policy's criteria of both reducing monthly payments as well as using the refinancing proceeds to make essential improvements in the property. The twenty year term exceeds our preferred minimum term; however, the interest rate is adjustable rather than fixed for the life of the loan.

As a fixed interest rate is described as "preferred" as opposed to required and as the refinancing satisfies our required policy criteria, staff recommends that the Council approve the CDP's refinancing request and to allow staff to proceed with the submission of the subordination documents to the County Commissioners for execution and recording.