RENT-TO-OWN WITHIN VILLAGE 6 AT THE VILLAGES OF KAPOLEI

(aka MALUOHAI PHASE 2)

(aka KAPOLEI HOOLIMALIMA)

PROJECT DESCRIPTION AND PURPOSE

"Rent-to-Own within Village 6 at the Villages of Kapolei" (RTOV6) is a 70-unit single-family affordable rental housing program that provides tenants with an option to purchase the house after 15 years. Houses constructed in RTOV6 were financed through the sale of Federal and State Low Income Housing Tax Credits, Developer's debt, and various grants. Site improvements were financed through Hawaiian home lands Trust Funds. Village 6 RTO, LP, the developer and non-profit entity of the project, holds a 55-year development lease to the project site; Mark Development Inc. is the development consultant responsible for project implementation, LIHTC compliance and rental management.

This program provides Hawaiian home lands applicants on the Oahu Residential Waitlist whose incomes do not exceed 50 and 60 percent of the area median income with affordable rents over a 15-year rental period, ending 2016. Beginning in 2017, tenants will be offered an option to purchase the house at the end of the 15-year Low-Income Housing Tax Credit (LIHTC) period. The purchase price of the house will be based on the remaining debt and project and sales expenses. Applicants who exercise the option to purchase the house and meet the financial requirements will be awarded a 99-year Hawaiian home lands residential lease and will be then removed from the waiting list.

This program targets applicants who may have had financial difficulty in qualifying for turnkey developments having been disqualified due to credit and debt issues. This program also provides homeownership counseling and a renter savings program for long term tenants to help prepare tenants for homeownership. The issuing of rental units is processed and conducted similarly to homestead lease offerings, by prequalification and selection of units according to rank order on the waitlist.

CHRONOLOGY

APRIL 97	Request for Proposals issued. Two proposals received: 1) Mark Development, Inc. (MDI) 2) Native Hawaiian Development, L.L.C.
SEPTEMBER 98	HHC selected MDI. Chairman authorized to negotiate 3 phased agreement: 1. Conduct Feasibility Study 2. Apply for Low Income Housing Tax Credits (LIHTC) 3. Project Implementation
DECEMBER 98	Development Agreement executed.
JUNE 99	Housing and Community Development Corporation of Hawaii (HCDCH) allocated LIHTC to the project: 1. $700,000 Federal tax credits 2. $210,000 State tax credits
AUGUST 99	Feasibility Study and Rental Procedures approved by the HHC. Fair Housing Act deemed not applicable by HUD; native Hawaiian restriction allowed.
SEPTEMBER 99	Notice to Proceed issued to MDI.
OCTOBER 99	Supplemental Agreement No. 1 establishes renter savings program and terms, rent and conditions for development lease and option to purchase house.
NOVEMBER 99	DHHL consents to Assignment of project from MDI to Village 6, RTO, L.P. MDI is project's development consultant
JAN-MARCH 00	MDI notified DHHL of equity and debt concerns: 1. Restricted market to only native Hawaiians 2. Lack of a curing mechanism in event of loan default Financing proposals to DHHL not accepted: 1. Guaranty on the permanent loan 2. Allocation of $750,000 cash reserve account to cover defaults HHC reiterates that project rentals limited to native Hawaiians MDI instructed to seek other financing means
MAY 00	Report submitted to HHC on potential exposure and liability in the event that the project cannot be implemented.
JULY 00	MDI submitted a request for project financing assistance: 1. HCRC requires agreement that DHHL will cure default or takeout HCRC. New lender (Bank of America), tax credit investor (Verizon), and tax credit syndicator (Alliant Capital) secured by MDI.

DECEMBER 00	Project Offering conducted; offering to applicants on the Oahu Islandwide Residential list up to September 29, 2000.
FEBRUARY 01	House construction started.
MAY 01	Tax credit investor secured by developer. Amended and Restated Development Agreement and Development Lease executed. Development lease establishes compliance with IRS Low Income Housing Tax Credit program requirements and State Housing and Community Development Corporation of Hawaii (HCDCH) and Tenant Option and Lessor Option procedures.
SEPTEMBER 01	First tenant move-in.
JULY 04	Second offering conducted by MDI to applicants on the Oahu Islandwide Residential list between September 30, 2000 to October 21, 2001

FINANCING SUMMARY

Low Income Housing Tax Credits Calculation:

$700,000 Federal Credits + $210,000 State Credits X 10 years = $9,100,000

Net Equity from sale of tax credits: $6,720,000
($9,100,000 X .7384 = $6,720,000)

Estimated Project Budget:

$ 6,720,000	Equity from Sale of Tax Credits
$ 490,000	Grant from Federal Home Loan Bank of Seattle
$ 210,000	V6RTO LP
$ 4,500,000	1st Mortgage from Bank of America
$11,920,000	Total Project Cost

PROJECT INFORMATION SHEET

See Attached Project Information Sheet:

- Project Features
- Rent Schedule
- Maximum Income by Household size
- Maximum Occupancy by Model Type

OPTION TO PURCHASE PRICE

House Model	Estimated Sales Price*	Estimated Monthly Mortgage**
Model F (3BR, BA, 1 Story)	$46,430	$574/mo.
Model C (3BR, 2.5BA, 2Story)	$52,440	$631/mo.
Model D (4BR, 2.5BA, 2 Story)	$54,720	$652/mo.
Model E (4BR, 3BA, 2 Story)	$56,740	$672/mo.

*Subject to change based on determination of final “Total Debt”. Includes estimate of 6% sales cost. “Total Debt” = (Remaining Project Debt) + (Expenses from Sale) – (Reserve Accounts, if any). Sales Price = (Total Debt) X (House Proportion Factor). Proportion Factor = percentage share of the total project cost for that model unit.

**Includes $130 allowance for mortgage insurance, homeowners insurance, association dues, closing costs, lender fees, etc. Assumes 8% interest rate, 15-year mortgage, 100% financing.

ISSUES

- **Property and Rental Management**
  - Compliance monitoring and notification procedures
  - Income and family size certification
  - Use of surveillance cameras
  - Requirement for family photographs automobile insurance certificates
  - Application of Section 8 vouchers as it relates to family size
  - Over three year period, 7 turnovers due to non-compliance, represents 3% turnover ratio.

- **Successorship**
  - Tenants are applicants on waiting list and 50 % NHQ rule applies to successors
  - Deaths of applicants without qualified successor have resulted in renter moveout.

- **Infrastructure and house construction**
  - Roadways not accepted by the City; DHHL responsible for street maintenance
  - Managing agent seeking means to remedy and replace vinyl siding, at no cost to project.

Prepared: 12/10/04

FINANCING ISSUES

Original Proposal:

LIHTC Syndicator and Investor: Hawaii Investors for Affordable Housing, Inc. (HIAHI)

Equity Issues:
1. Restrictive market to native Hawaiians
2. Perfection of loan in event of vacancies/delinquencies

Equity Requirement:
1. Project to establish total reserve account of $1,250,000 (cash in bank)
2. Project to commit $500,000
3. DHHL to commit $750,000 cash

Permanent Lender: Hawaii Community Reinvestment Corporation (HCRC)

Debt Issues:
1. Restrictive market to native Hawaiians
2. Perfection of loan in event of default due to vacancies/delinquencies
3. Clear mortgageable interest in land

Debt Requirement:
1. Same as equity requirement
2. Add technical language with approval by the Attorney General

Owner: HHC/DHHL

Issues:
1. Rentals to native Hawaiians exclusively
2. Not in agreement with providing long-term cash reserve account
3. Required V6RTO, LP to seek other syndicators, investors, and lenders

Updated Proposal:

LIHTC Syndicator and Investor "Proposed": Alliant Capital and Verizon*

Equity Issues:

1. Project reserves adequate
2. Net equity nearly equal to original proposal
3. Strength of potential investor is positive

Equity Requirement:

1. DHHL cash set aside reserves not required

Permanent Lender: HCRC

Debt Issues:

1. Restrictive market to native Hawaiians
2. Perfection of loan in event of default due to vacancies/delinquencies
3. Clear mortgageable interest in land

Debt Requirement:

1. Estoppel agreement which would obligate DHHL to cure any default or take out the permanent lender
2. Add technical language with approval by the Attorney General

Owner: HHC/DHHL

Issues:

1. Obligation to cure default looks like a guaranty
2. Preference is to take an option to cure default
3. Equity position far exceeds the debt position, therefore it is likely that the investors would intercede in a default situation

*Verizon created out of merger between Bell Atlantic/GTE etal.

FINANCING OPTIONS

1. Estoppel Agreement
    - Permanent lender is requiring that DHHL obligate itself to cure any default or take out the lender; this appears to look like a guaranty.
    - This agreement requires no upfront cash commitment and it highly unlikely that the investors would allow the project to go into default.
    - Retaining an option to cure default or to take out the permanent lender is more favorable to DHHL.

2. DHHL provides permanent financing
    - DHHL may provide permanent financing from own funds or borrowed funds with the assumption that rates would be more favorable.
    - Development Agreement may have to be renegotiated; budget amendment needed.
    - DHHL financing may be considered if the project is threatened with loss of tax credits due to non-resolution of the permanent financing requirement.

3. Other sources of financing
    - Federal Home Loan Bank provides funds directly to non-member borrowers; need FHA certification.
    - Community Investment Project financing available to non-profits through a lender.
    - FHA Multi-Family financing may be available upon executing negotiated agreement with HUD.
    - HCDCH Rental Housing Trust Fund typically has favorable rates, but funds not available until new legislative appropriations are made.

4. Open rental market to the general public
    - Opening the rental project to non-native Hawaiians in the event that all native Hawaiians have been given an opportunity to rent would extinguish the permanent lenders concerns.
    - Sales/leases would be restricted to native Hawaiians, pursuant to the HHCA.
    - Public relations effort would be required; other political issues would be raised.

5. No action
    - DHHL is not obligated to provide any further assistance to V6RTO, LP/MDI.
    - Project may be approaching critical; DHHL estimates that financing must be secured before the end of the calendar year in order for construction to start in April 2001.
    - Project must be under operation by end of 2001 as a condition of the issuance of LIHTC.

- If permanent financing is not secured, interim lender will not provide construction financing and project will not move forward.
- Convert 70 rentals to turnkey, for sale units; $7 million in equity would be lost.
- Applicants in the low-income category would not have the opportunity to rent to own a house.