



**City of Santa Monica**  
**Housing Division**  
**1901 Main Street, 1<sup>st</sup> Floor, Suite A**  
**Santa Monica, CA 90405**  
**Phone: (310) 458-8702**

September 17, 2018

Tod Lipka  
President and Chief Executive Officer  
Step Up on 26<sup>th</sup>, LLC  
c/o Step Up on Second Street, Inc.  
1328 Second Street  
Santa Monica, CA 90401

RE: 2621, 2622 and 2627 26<sup>th</sup> Street Commitment to Provide Permanent Financing

Dear Mr. Lipka:

We are pleased to inform you that the City of Santa Monica (Lender) has preliminarily approved an additional funding request from Step Up on 26<sup>th</sup>, LLC, a subsidiary of Step Up on Second Street, Inc. (Borrower) in the amount of \$398,863 for the 12-unit project located at 2621, 2622 and 2627 26<sup>th</sup> Street (Project). This loan will be funded from the Citywide Housing Trust Fund (CHTF) and shall be subject to the same terms and conditions as set forth in the Loan Agreement and related financing documents, dated April 28, 2016, as modified by the terms of this additional commitment of funds. The Lender's funding is subject to the Borrower's execution of final documents to be approved by the Lender's Counsel and prepared under the following general terms and conditions:

**LOAN AMOUNT:** \$398,863 increase in acquisition and rehabilitation for a total loan amount of \$6,754,863.

**NUMBER OF UNITS:** Twelve (12) 1-bedroom units

**LOAN TERMS:** 55 years; interest rate equal to Federal Home Loan Mortgage Corp. rate for 30-year fixed-rate mortgage, compounded annually; payments deferred for two years or the completion of rehabilitation, whichever is earlier, subject to a one-year extension of the deferral period solely at the discretion of the Lender; during the deferral period, Borrower shall pay to Lender all of the net operating income ("NOI") from the Project, unless otherwise agreed upon; after the deferral period, Affordability and Operating Reserves will be required and combined at this property. Deposits of 100 percent of the NOI will be made each operating year until the reserves accumulate to the amount of 1.5 years of HUD rental subsidies as shown in a City approved pro forma to address if, for any reason, HUD does not renew its Santa Monica contracts, plus a reserve amount that equals the total of all annual negative cash flows through year 30 as shown in a City approved pro forma. During loan document development, staff will determine the best way to structure releases from this reserve to preserve the property's affordability and financial viability for a minimum of 30 years, aiming for as long as possible. Replacement Reserves are set at \$500 per unit per year.

**MODIFIED LOAN DOCUMENTS:**

Lender and Borrower will execute modifications to the existing Loan Agreement and related financing documents, including the Promissory Note, Deed of Trust and Regulatory Agreement.

**OCCUPANCY RESTRICTIONS:**

Tenants will be selected from a pool of City of Santa Monica Continuum of Care (COC) program graduates who have successfully demonstrated the ability to live in less service-enriched housing. Selection criteria is outlined in the approved Management Plan. Apartments shall be rented to households earning no more than 50% Area Median Income (AMI). The Manager's unit maximum income shall be set at 80% AMI. Existing in-place tenants will remain at the property.

**RENT RESTRICTIONS:**

Upon the vacancy of any unit, the rent shall be affordable to the income-targeted households as set forth above (see Occupancy Restrictions). The rent limit shall be based on 50% area median income adjusted for number of bedrooms, and minus a utility allowance for any tenant-paid utilities unless further defined by the Lender or as allowed by Santa Monica Housing Authority.

**DISBURSEMENT:**

As applicable, the Lender shall disburse rehabilitation proceeds on a percentage completed basis and Lender shall retain 10% of the construction contract amount of each construction contract draw. Funds from such account will be disbursed according to the disbursement procedures set forth in the Program Loan.

**LENDER OPTION:**

Per the Option Agreement recorded on the property, the Lender will have the option to take title to the property in accordance with the terms of the Option Agreement.

**CONDITIONS FOR DISBURSEMENT OF THE REHABILITATION FUNDING:**

1. Lender receipt of an ALTA Lender's Title Insurance Policy in the amended full amount of the Lender funding.
2. Lender receipt and approval of draw requests.
3. Compliance with all applicable property standards.
4. Lender receipt and approval of a list of all contractors, subcontractors, consultants and material suppliers to be employed on the Project. Borrower will require performance bonds and payment bonds on all contracts and subcontracts, in form and substance acceptable to the Lender unless otherwise waived by the Lender in its sole discretion.
5. Lender receipt and approval of a Prevailing Wage Monitoring Plan.
6. Evidence that Borrower has maintains operating and construction insurance as required by

the Lender's Risk Manager, the Amended and Restated Regulatory Agreement and the Amended and Restated Program Loan Agreement including, but not limited to the following insurance coverages:

- a. *Liability insurance* of at least \$1,000,000. The insurance certificate must indicate the City of Santa Monica as an additional insured; and
  - b. *All risk property insurance* in an amount equal to 100% replacement value. The insurance certificate must indicate the City of Santa Monica (Lender) as loss payee.
7. Lender receipt and approval of current active construction insurance and contractor insurance.
  8. Lender receipt and approval of the Contractor's performance bond and payment bond, which shall remain in effect for the term of construction, in form and substance acceptable to Lender unless otherwise waived by the Lender in its sole discretion.

#### OTHER CONDITIONS REQUIRED FOR LOAN CLOSING

1. Lender receipt and approval of final plans and specifications for the rehabilitation. Lender will require an assignment of any such plans, subject to priority assignment, of Borrower's ownership interest in and to the plans and specifications as security for the funding. [RECEIVED AND APPROVED]
2. Lender receipt and approval of all entitlements necessary to rehabilitate the Project. [RECEIVED AND APPROVED]
3. Lender receipt and approval of a Management Plan. [RECEIVED AND APPROVED]
4. Lender receipt and approval of a Good Neighbor Agreement. [RECEIVED AND APPROVED]
5. Lender receipt and approval of a financial feasibility analysis which includes:
  - a. An amended rehabilitation budget [RECEIVED AND APPROVED];
  - b. An amended operating budget [RECEIVED AND APPROVED]; and
  - c. An amended cash flow, including confirmation satisfactory to the Lender in its sole discretion that annual gross potential rent for the project is at least \$271,631 [RECEIVED AND APPROVED]
6. Lender receipt of contract-billed-to-date reports, and receipt and approval of all forecasted contract extension amounts through project completion from the Owner's consultants [RECEIVED]
7. Lender receipt and approval that the terms and conditions of the construction contract on file with the Lender remain in effect. Lender will require an assignment, subject to priority assignment, of Borrower's interest in and to any such construction contracts as security for the funding, and Borrower shall obtain Contractor's consent to the assignment. Contractor(s) must be acceptable to Lender in its sole discretion.

8. Borrower will inform Lender of any property tax refunds associated with monies spent from the original loan. These funds will be subject to the terms and conditions of residual income as outlined in the Regulatory Agreement.
9. Lender will require an assignment, subject to priority assignment, of Borrower's interest in and to the architect's/engineer's agreement, if any, as security for the funding.
10. Upon construction completion, Borrower shall make annual contributions in the amount of at least \$6,000 into the replacement reserve account. Borrower's withdrawals from this account will require the Lender's written approval, which will not be unreasonably withheld. The amount of the annual contribution and limitations on the withdrawals may be modified as provided in the Amended and Restated Regulatory Agreement.
11. Lender reserves the right to require at any time during the term of the Amended and Restated Regulatory Agreement that Borrower maintain on deposit in one or more accounts designated or held by Lender (a) funds sufficient to pay property taxes and insurance premiums owing with respect to the Project, and (b) funds designated and set aside as operating and replacement reserves for the Project.
12. Borrower's execution and delivery of Lender's standard financing documents, and compliance with all covenants and conditions set forth in these documents or as Lender or its counsel may determine based on a review of Borrower's submissions as required by this commitment letter.
13. This funding will be monitored over its term, and this Project will be monitored over the term of the Amended and Restated Regulatory Agreement. Borrower understands that it will be required to complete monitoring reports, as required by Lender, in a timely fashion.
14. Please note that the Lender liens shall be recorded, subject only to exceptions approved by the Lender in its sole discretion.
15. Lender reserves the right at any time during the term of this funding to sell, assign, or otherwise transfer its interest and rights in the promissory note.
16. Borrower's assurances, as Lender deems necessary, that the property condition and Borrower financing condition remain substantially the same as represented at the time of commitment.
17. Borrower must provide the property lien-free before a loan can be closed, unless the Borrower is able to provide the City with financial guarantees (such as bonds or security) that protect the City's interest in the property.
18. Borrower must agree to all of the conditions required by Title, including but not limited to any indemnifications, warranties and guarantees necessary due to the property currently being under construction.
19. Upon Borrower's completion of construction, Borrower shall pay to Lender any net cash proceeds generated from the operation of the Project (including proceeds refunded from the City's Solid Waste Management Department deposit) that remain at the time of completion of the rehabilitation unless formally requested and approved pursuant to the Amended and

Restated Program Loan Agreement.

20. Lender reserves the right to cancel this commitment and terminate its obligations hereunder, upon the occurrence of any of the following events:
  - a. Borrower's failure or inability to comply with the terms of this commitment;
  - b. The filing by or against Borrower or any guarantor of a petition in bankruptcy or insolvency or for reorganization that is not dismissed within ninety (90) days from filing, or the appointment of a receiver or trustee, or the making by Borrower or any guarantor of an assignment for the benefit of creditors, or the filing of a petition for arrangement by Borrower or guarantor;
  - c. The disclosure of any information which in the opinion of Lender would impair the ability of Borrower or any guarantor to perform under the terms of this commitment or the conditional grant or of the Project to meet Lender's underwriting standards; or
  - d. The failure of Borrower to disclose to Lender all information material to the grant or the Project and the improvements, or the misrepresentation by Borrower of any material fact relating to the loan, the Project, the improvements or the financial condition of Borrower or any guarantor.
21. A local preference for new tenants will be given in accordance with the Housing Trust Fund Guidelines and the Santa Monica Housing Authority Administrative Plan.
22. One unit shall be dedicated to an onsite live-in Property Manager, and a half-time life skills/case management staff person shall implement a program for all residents of the property including those in place prior to acquisition.

The Project must comply with all applicable City codes, standards and current zoning requirements. Applicants are advised to check with the City Planning and Community Development Department and the City Rent Control Board. Please note that affordability definitions may differ under existing Santa Monica Municipal Code provisions applicable to the Project.

Borrower is expected to be adequately represented by its own legal counsel. Conditions stated herein may be changed only by the prior written consent of both parties to this commitment letter.

The Lender's calculation of the projected financing amount has been based upon estimated total development costs submitted by Borrower as part of the funding request. To the extent that actual Project costs are lower, the Lender may reduce the funding amount accordingly to provide minimum public subsidy to the Project.

The City of Santa Monica's commitment contained herein expires on November 30, 2018 or upon recordation of the loan documents with Los Angeles County Registrar-Recorder/County Clerk, whichever occurs first. Please sign the attached copy of this letter and return it to us by as soon as possible, to acknowledge acceptance of the terms and conditions contained in this letter.

Please call Lisa Varon, Senior Development Analyst, at 310.458.2201 x5113 with any questions or comments. We look forward to assisting you with this affordable housing project.

Sincerely,

  
Rick Cole  
City Manager 9-21-18

  
Andy Agle  
Director of Housing and Economic Development

Attest:

  
Denise Anderson-Warren  
City Clerk

  
Barbara Collins  
Housing Manager

Approved as to form:

  
Lane Dilg  
City Attorney

ACKNOWLEDGED AND ACCEPTED BY  
BORROWER:

STEP UP ON 26TH, LLC,  
a California limited liability company,

By: Step Up on Second Street, Inc.  
a California nonprofit corporation  
Its Sole Member

By:   
TOD LIPKA  
President and CEO