

REPORT OF THE PRESIDENT

March 25, 2021

RESOLUTION AUTHORIZING THE APPROVAL OF AN EXCEPTION TO HACLA'S AND ITS RELATED ENTITIES' DEBT MANAGEMENT POLICY (MPP 107.7), SPECIFICALLY SECTION VII-DERIVATIVE PRODUCTS, TO ALLOW LOMOD RHC I LLC, ITS SOLE MEMBER BEING LA CIENEGA LOMOD, INC., AN INSTRUMENTALITY OF HACLA, TO ENTER INTO SWAP AND OTHER PRE-CLOSING ANCILLARY FINANCING DOCUMENTS AND RELATED APPLICATIONS, DOCUMENTS AND AGREEMENTS, AS THE MANAGING GENERAL PARTNER OF ROSE HILL COURTS PHASE I, L.P., IN ORDER TO FACILITATE THE REDEVELOPMENT OF ROSE HILL COURTS

Tina Smith-Booth
President

Lisette Belon
Secretary

Purpose: Adopting the resolution (Attachment 1) will provide a one-time waiver of HACLA's Debt Management Policy, Section VII-Derivative Products and permit LOMOD RHC I, LLC ("LOMOD"), through its sole member and HACLA instrumentality, La Cienega LOMOD, Inc. ("La Cienega") to engage in furtherance of a forward starting interest rate swap (the "Swap"). The purpose of the Swap is to obtain comparatively low-cost financing and to remove interest rate risk for the redevelopment of Rose Hill Courts Phase I (the "Project"). By implementing the Swap, future interest rate risk protection is established immediately. The Swap would be executed just prior to bond closing and locks-in a fixed rate on the permanent financing, even though debt service to be paid on the permanent financing will not commence until 2.5 years into the future. The Swap is secured by the collateral of the Project and is non-recourse to LOMOD and La Cienega.

LOMOD will need to engage in preliminary actions necessary to prepare the required swap-related documents, registrations and applications. Staff will return to the LOMOD Board in April or May 2021 with substantially final financing and other transaction documents for final approval.

Regarding: On January 23, 2020, the HACLA Board of Commissioners ("BOC"), by Resolution No. 9568, authorized HACLA's President and CEO to execute a Disposition and Development Agreement ("DDA") with Rose Hill Court I Housing Partners, L.P., (the "Partnership") for the redevelopment of Rose Hill Courts Phase I (the "Project").

On June 25, 2020, the BOC, by Resolution No. 9612, approved the Inducement as the conduit bond issuer for the Project, and on July 30, 2020, the BOC, by Resolution No. 9619, approved the procedures executed by HACLA for its TEFRA proceedings applicable to the Project.

On December 17, 2020, by Resolution No. 2020-05, the LOMOD Board of Directors authorized La Cienega, as the sole member and manager of LOMOD RHC I, LLC, to enter the Project's limited partnership as the managing general partner (the "MGP").

In a separate action, staff will also seek approval from the HACLA BOC, on March 25, 2021, to approve an exception to Section VII-Derivative Products, of the HACLA Debt Management Policy (MPP 107.7) (the "Policy"), to permit LOMOD, through La Cienega, to enter into documents in furtherance of the Swap.

Issues: In connection with the bond issuance for the Project, HACLA determined that LOMOD, with La Cienega, as the sole member, will be the managing general partner of the Rose Hill Courts I Housing Partners, L.P. (the "Borrower"). LOMOD, as a member of the Borrower, must execute various financing documents with the debt provider, MUFG Union Bank, N.A. ("Union Bank" or the "Funding Lender"), which include swap documents, confirmations and other documents associated with the financing. The Borrower would become a counterparty to the Swap.

Background Proposed General Financing Structure. The financing for the Project is structured in a similar manner to most other conduit bond issuances with a bank or other lender as the Funding Lender for the projects, the exception here being the proposed use of a forward starting interest rate swap:

- Union Bank will fund a government loan to HACLA under a Funding Loan Agreement, the repayment of which is evidenced by a Governmental Note;
- HACLA will loan the proceeds of the Funding Loan Agreement to the Borrower under a Construction and Permanent Loan Agreement (the "Borrower Loan Agreement"), the repayment of which is evidenced by a Borrower Note; Payments under the Borrower Note will be assigned to Union Bank and, in turn, will fund the Governmental Note (the "Notes");
- The interest rate index applied to the Government Note and the Borrower Note will mirror each other;
- During the construction period, until Conversion, the interest rate will be a variable rate equal to 79% of 1 Month LIBOR plus a spread for the tax-exempt portion;
- At Conversion, the interest rate on both Notes will convert from variable rate to fixed rate. That fixed rate will be set just prior to the closing of the financing to take effect on the projected Conversion date (approximately 30 months after the closing of the conduit bond issuance).

The primary difference between the Union Bank structure and the financing structures proposed by other lenders is the Swap to be entered into between Union Bank and the *Borrower*. The security for the interest rate swap is the same as the security for the Borrower Note—a mortgage deed of trust on the Project and its net rental income. The interest rate swap is non-recourse to all parties of the Borrower, including LOMOD and La Cienega and no additional collateral is required of the Borrower or the Borrower parties.

Related California solicited the Project financing to nine banks and received four responses. Union Bank's proposal provided the lowest borrowing rate and lowest bank transaction costs, possibly providing total savings of \$659,141 throughout both the construction and permanent phases. All figures presented in this report are subject to change due to interest rate fluctuations. Over a 17-year permanent loan period, assuming a 35-year amortization, savings on interest expense is estimated to be \$470,089. In

general, most key terms and conditions closely align between the two banks (Attachment 3). The table below compares the costs between Union Bank and the cover bid:

	Union Bank	Cover Bid	UB costs are higher (lower)
Tax-Exempt Construction Loan			
Interest Cost (30 months, 70%)	\$972,425	\$975,211	(\$2,786)
Bank origination, legal and other fees	\$317,262	\$238,827	\$78,435
Subtotal	\$1,289,687	\$1,214,038	\$75,649
Taxable Construction Loan			
Interest Cost (30 months, 70%)	\$316,645	\$414,856	(\$98,211)
Bank origination, legal and other fees	\$40,639	\$50,799	(\$10,160)
Subtotal	\$357,284	\$465,655	(\$108,371)
Permanent Construction Loan			
Interest Cost (17 years)	\$7,964,446	\$8,434,536	(\$470,089)
Bank origination, legal and other fees	\$0	\$156,330	(\$156,330)
Subtotal	\$7,964,446	\$8,590,866	(\$626,419)
Total Construction and Permanent Loans			
Interest Costs	\$9,253,516	\$9,824,602	(\$571,086)
Bank origination, legal and other fees	\$357,901	\$445,956	(\$88,055)
Total interest and fees	\$9,611,417	\$10,270,558	(\$659,141)

*Estimates only, derived from index, floors and spread quotes dated September 20-21, 2021.
Prepared by HACLA Staff. March 16, 2021.*

Union Bank has implemented swap structures for multifamily rental housing transactions throughout California, including for such public agencies as the City and County of San Francisco (Mayor's Office of Housing and Community Development, the City of San José, the City of Los Angeles (through HCID/LA), the Anaheim Housing Authority and the San Diego Housing Authority. In those instances, the public agencies served solely as issuer of the conduit debt, with an independent non-profit serving as the managing general partner to a limited partnership that directs the borrower. For this Project, HACLA will be the bond issuer while the Borrower, to which LOMOD is a member, will be a counterparty to the Swap.

Analysis

Transaction Elements. The Union Bank swap operates in the following manner:

- During construction, the tax-exempt loan is approximately \$31.8 million, will bear interest at 79% of 1-month LIBOR + 1.65% and will be paid only on amounts that are drawn down;
- The permanent fixed rate will be set in accordance with a formula – the rate on the US LIBOR swap curve + 2.00%. At the time of the Union Bank term sheet, that rate translated into a permanent loan rate of 3.53% (rates have since increased);
- The permanent loan will be set at \$15,633,000 and the fixed rate will take effect on the anticipated Conversion Date;

- Union Bank pays a variable rate on the Swap starting on conversion date at the loan rate (79% of 1-month LIBOR + 1.65%). This rate should exactly offset the rate on the Borrower Note, leaving Borrower with a net fixed rate;
- Principal on the permanent loan is amortized at the fixed rate – scheduled monthly principal payments will be provided once the fixed rate is locked. The Borrower Note is reduced by these amounts (See Attachment 4 for a diagram for the proposed the swap structure).

Risk Assessment. The Union Bank interest rate swap avoids nearly all of the risks associated with the interest rate swaps that received notoriety following the Great Recession. Under the Union Bank proposal:

- Capital market risk has been significantly mitigated because the interest rate index applied to the loan matches the index applied to the Swap. Index matching mitigates problems caused by investors favoring one index over another index, resulting in a divergence between the payment the Borrower receives versus the amount the Borrower pays under the swap. Further, when LIBOR transitions out in June 2023, the new index and spread will be established for both the loan and swap – and will continue to cancel each other out;
- Basis risk is present in this structure, but it is exceptionally unlikely the market events necessary to trigger basis risk would ever transpire. Should economic conditions push 30-day LIBOR to below 0.0%, the Borrower would be responsible for paying an additional interest amount equal to the difference between the negative rate and 0.0%. If LIBOR hypothetically was set at a negative interest rate, the Borrower would be obligated to pay the 3.53% fixed interest rate plus an amount equal to the negative interest rate times the outstanding loan amount for the period that the negative rate existed. In Attachment 5, for example, the July 2024 column illustrates the impact of a 1.0% negative rate, where the borrower would be required to cover not just the \$64,882 payment but also the \$10,267 amount, resulting in a total monthly payment of \$75,149. This scenario is unlikely to occur, as the United States has never experienced negative interest rates;
- Union Bank is not requiring any additional collateral. In prior swaps, the Borrower needed to pledge additional collateral in circumstances where *prevailing* fixed interest rates declined to levels that were significantly lower than the fixed swap rate – thereby resulting in a “negative mark-to-market.” That collateral secured the bank swap counterparty in the event of an early termination of the swap under such a rate environment. With the Union Bank swap, that additional collateral pledge requirement does not exist. The only collateral will be the real estate being financed. The fixed interest payments under the Swap will be the same as under the Governmental Note and Borrower Note. They are non-recourse to all Borrower parties, including LOMOD and La Cienega;
- Counterparty risk is largely mitigated. Union Bank is a highly-rated financial institution (“A2”, “A”, “A” from Moody’s, S&P, and Fitch, respectively). In the unlikely event Union Bank opted to exit its role as counterparty to the Swap, the loan documentation requires a hedge in any form from a counterparty rated at least as high as Union Bank.

Swap Documentation. Interest rate swaps are governed by the International Swaps and Derivatives Association (“ISDA”), which is a trade organization that has created standardized documentation for derivative transactions. These documents will be presented at the April or May BOC meeting and the La Cienega Board of Directors meeting on the same date for approval, before La Cienega LOMOD will execute those documents. However, as an initial step before entering into those documents, the Borrower, including the Administrative General Partner and Managing General Partner, must undergo an “onboarding” process required under the Dodd-Frank Wall Street Reform and Consumer Protection Act and Union Bank’s policy requirements. This process includes a resolution to enter into the derivative transaction and executing the Dodd-Frank Supplemental Agreement that makes certain representations as to the Borrower’s eligibility to enter into the interest rate swap.

The onboarding process does not obligate La Cienega or LOMOD to execute the swap documents in connection with the Project financing. If risks arise of which staff is currently unaware, staff would not recommend proceeding with the Swap at the April or May 2021 board meetings, unless those risks are mitigated to a level acceptable to LOMOD and is in furtherance of the intent of the attached resolution and board report.

Recommendation

HACLA’s Bond Counsel, municipal advisor, internal legal counsel and bond staff have reviewed the structure of the transaction and believe that any risks do not differ meaningfully from other affordable housing financing structures, and that the Swap would be beneficial to LOMOD by reducing transaction costs, eliminating interest rate risk on the permanent financing, and producing a higher permanent loan amount.

Vision Plan: PLACE Strategy #1: Stabilize the physical and financial viability of the conventional public housing portfolio.

Conduit bond issuance authority developed and utilized. Growth in revenue from bond authority realized to support the HACLA’s objectives.

PLACE Strategy #2: Increase functionality and effectiveness of Asset Management portfolio.

Utilize available funding tools, including Tax Credits, conventional debt/equity, Project-Based Vouchers and RAD to achieve site-based improvements and stabilized operating income and ensure long-term affordability.

Funding: The Chief Administrative Officer confirms the following:

There is no budget impact for accommodating a one-time exception to the Policy. Potential cost savings illustrated in this report are preliminary and provided for context as it may pertain to the Union Bank swap structure and requested exception to the Policy.

Environmental Review:

CEQA: HACL A is the lead agency for the Rose Hill Courts redevelopment for purposes of the California Environmental Quality Act (CEQA). On November 26, 2019, HACL A certified the Environmental Impact Report (SCH 2018091035) and Errata, dated November 2019, for the Rose Hill Courts redevelopment project and approved the project. The demolition and disposition activities are consistent with the certified EIR and will be subject to the imposition of various measures contained in the EIR's MMRP and City and HACL A's conditions of approval. No further environmental review is required for HACL A's recommended actions because there has been no change to the Rose Hill Courts redevelopment or substantial changes in circumstances or new information that would warrant subsequent environmental analysis in accordance with CEQA, including but not limited to Public Resources Code section 21166 and State CEQA Guidelines sections 15162, 15163 and 15164.

NEPA: Pursuant to 24 CFR Part 58, the City of Los Angeles, through its Housing and Community Investment Department ("HCIDLA"), serves as the environmentally responsible entity in preparation of the Final Environmental Impact Statement for the Rose Hill Courts Redevelopment Project. HCIDLA issued a Record of Decision on January 24, 2020 and submitted a Request for Release of Funds to HUD on February 8, 2020. On March 9, 2020, the U.S. Department of Housing and Urban Development's Los Angeles Office of Public Housing issued approval of the City of Los Angeles' Environmental Certification.

Section 3: Not Applicable

Attachments:

1. Resolution
2. Debt Management Policy
3. Comparison of Union Bank bid versus the cover bid
4. Swap Financing Structure Flow Chart
5. Example Depicting a Negative Interest Rate Environment

CERTIFICATE OF THE SECRETARY

The undersigned, Secretary of the Corporation does hereby attest and certify that the attached Resolution is a true, full and correct copy of a resolution duly adopted at a meeting of said corporation which was duly convened and held on the date stated thereon, and that said document has not been amended, modified, repealed or rescinded since its date of adoption and is in full force and effect as of the date hereof.

DATE: 3/25/2021



RESOLUTION NO. _____

RESOLUTION AUTHORIZING THE APPROVAL OF AN EXCEPTION TO HACLA'S AND ITS RELATED ENTITIES' DEBT MANAGEMENT POLICY (MPP 107.7), SPECIFICALLY SECTION VII-DERIVATIVE PRODUCTS, TO ALLOW LOMOD RHC I LLC, ITS SOLE MEMBER BEING LA CIENEGA LOMOD, INC., AN INSTRUMENTALITY OF HACLA, TO ENTER INTO SWAP AND OTHER PRE-CLOSING ANCILLARY FINANCING DOCUMENTS AND RELATED APPLICATIONS, DOCUMENTS AND AGREEMENTS, AS THE MANAGING GENERAL PARTNER OF ROSE HILL COURTS PHASE I, L.P., IN ORDER TO FACILITATE THE REDEVELOPMENT OF ROSE HILL COURTS

WHEREAS, La Cienega LOMOD, Inc. ("La Cienega") is an instrumentality of the Housing Authority of the City of Los Angeles ("HACLA") and is a nonprofit public benefit corporation duly created, established and authorized to transact business and exercise powers under and pursuant to the provisions of the Nonprofit Public Benefit Corporation Law, consisting of Part 2 of Division 2 of Title 1 of the California Corporations Code (the "Act");

WHEREAS, the Act authorizes La Cienega to make and execute contracts and other instruments necessary or convenient for the exercise of its powers;

WHEREAS, in connection with the redevelopment of Rose Hill Courts Phase 1 (the "Project"), La Cienega is the sole member and manager of LOMOD RHC I LLC ("LOMOD"), the Managing General Partner of Rose Hill Courts Phase I, L.P. (the "Partnership" or "Borrower");

WHEREAS, HACLA is a public body, corporate and politic, duly created, established and authorized to transact business and exercise powers under and pursuant to the provisions of the Housing Authorities Law, consisting of Part 2 of Division 24 of the California Health and Safety Code (the "HACLA Act"), including to issue and sell mortgage revenue bonds or notes as part of a plan of financing for the purpose of making loans or otherwise providing funds to finance the acquisition, construction, rehabilitation and development of multifamily residential rental housing projects, including units for households meeting the income limits set forth in the Act;

WHEREAS, HACLA desires to issue bonds or revenue notes in accordance with the HACLA Act, to provide conduit bond financing for the acquisition, construction and equipping of the Project;

WHEREAS, on June 25, 2020, the HACLA Board of Commissioners approved, by Resolution 9612, an Inducement Resolution as a Conduit Bond Issuer and on July 30, 2020, approved the issuance of private activity bonds for the Project pursuant to and solely for purposes of Section 147(f) of the Internal Revenue Code;

WHEREAS, LOMOD, as a member of the Partnership, must execute various financing documents with the debt provider, MUFG Union Bank, N.A. (the "Funding Lender"), which include interest rate swap agreements, confirmations and other documents associated with the financing, which HACLA, as the conduit issuer will not have to execute and will not be a party to;

WHEREAS, HACLA and La Cienega staff, with advice from HACLA's Municipal Advisor and Bond Counsel, have determined that the swap structure: i) does not produce basis risk (unless there is a

negative interest rate environment with respect to LIBOR, which has never happened in the United States), or capital markets exposure, ii) based on staff's preliminary analysis, will provide an overall savings over the life of the construction loan and permanent loan and/or higher debt sizing to the Project of approximately \$659,141 compared to other structures proposed by other banks, iii) does not require collateral beyond a mortgage deed of trust on the Project, iv) is non-recourse to LOMOD, La Cienega and HACLA, v); is a conduit financing structure being successfully utilized throughout California, including by the City of Los Angeles, the Anaheim Housing Authority and the San Diego Housing Authority, with independent non-profit partners as members of the limited partnership vi) will consist of a variable rate/drawdown structure during construction and a fixed rate to be set at financial closing and such fixed rate will take place at permanent conversion, and vii) does not require that HACLA, as the conduit bond issuer, be a party to this component of the Project's financing transaction;

WHEREAS, HACLA's Debt Management Policy, which pertains to HACLA and its related entities, (MPP 107.7) ("Debt Policy") Section VII-Derivative Products, states that "[b]ecause of their complexity, unless otherwise amended, derivative products such as *interest rate swaps*, inverse floaters, and other hybrid securities are prohibited by this Policy";

WHEREAS, HACLA's Conduit Bond Policy does not contain a prohibition on swap structures as part of a conduit bond issuance;

WHEREAS, HACLA's Bond Counsel, municipal advisor, internal legal counsel and bond staff have reviewed the structure of the transaction and believe that any risks do not differ meaningfully from other swap or traditional loan structures and that the transaction would be beneficial to HACLA, La Cienega and LOMOD by reducing transaction costs and producing a higher permanent loan amount;

WHEREAS, concurrently with this Resolution, the HACLA Board of Commissioners is scheduled to approve a similar resolution on March 25, 2021;

WHEREAS, it is in the best interest of La Cienega and LOMOD to allow a one-time waiver of Section VII of the Debt Policy for the Project only, and to allow LOMOD and La Cienega to execute any and all required pre-closing swap-related documents, registrations and applications;

WHEREAS, staff will come back to the HACLA and La Cienega Boards in April or May 2021 with substantially final financing, HUD and development transaction documents for final approval by both Boards.

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of La Cienega, as follows:

The Board of Directors hereby approves the one-time waiver of HACLA's Debt Management Policy which also applies to any HACLA-related entities, Section VII-Derivative Products, for the Rose Hill Courts Phase I redevelopment project to allow its instrumentalities, LOMOD and its sole member and manager, La Cienega to enter into preliminary swap "on-boarding" documents, registrations, certificates, agreements and to take such other actions as may be reasonably necessary to effectuate the activities contemplated by this Resolution, all as approved by legal counsel, and conditioned on all RHC I primary substantially final financing documents to be presented to both the HACLA and La Cienega Boards, as applicable, in April or May 2021.

PASSED AND ADOPTED by the La Cienega Board of Directors this 25th of March, 2021.

APPROVED AS TO FORM:

LA CIENEGA LOMOD, INC.

JAMES JOHNSON

By: _____
General Counsel

By: _____
Ben Besley, Chairperson

DATE: _____

ADOPTED: _____

HACLA Debt Management Policy

HOUSING AUTHORITY OF THE CITY OF LOS ANGELES

DEBT MANAGEMENT POLICY

I. INTRODUCTION

The Housing Authority of the City of Los Angeles' (the "Authority") Debt Management Policy (this "Policy") establishes objectives and guidelines for the issuance and administration of debt and other financing obligations of the Authority and related entities for which the governing body consists only of some or all of the members of the Authority's Board of Commissioners. "Authority" shall mean the Authority and/or the Authority and its related entities, as context may require.

This Policy is intended to ensure consideration and compliance with applicable law, provide justification for the structure of debt issuance, identify policy goals; and demonstrate a commitment to long-term financial planning. Adherence to a debt management policy signals to rating agencies and the capital markets that a public body is well-managed and should meet its obligations in a timely manner.

The guidelines established by this Policy will govern the issuance and management of all debt incurred for affordable housing development, real estate financing transactions, and long-term capital financing needs, but not for general operating functions. The Authority recognizes that changes in the capital markets and other unforeseen circumstances may require action which may deviate from this Policy. In cases which require exceptions to this Policy, approval from the Authority's Board of Commissioners will be necessary for implementation. In addition, all debt issuances must be approved by a Resolution adopted by the Authority's Board of Commissioners. The Authority will keep outstanding debt within the limits of applicable law and at levels consistent with its credit worthiness objectives.

II. GOALS AND OBJECTIVES

This section of this Policy sets forth certain equally important goals and objectives for the Authority and establishes overall parameters for responsibly issuing and administering the Authority's debt. Additionally, this Policy is intended to facilitate compliance by the Authority, and is consistent with, Section 8855(i) of the California Government Code as amended by SB 1029 ("SB1029"), effective on January 1, 2017, as may be amended from time to time.

The goals and objectives of the Authority's debt are:

- To finance affordable housing and capital projects, including cost-effective refundings, in a timely and cost-effective manner, considering market conditions and projected cash flows
- To minimize debt service and issuance costs
- To maintain access to cost-effective borrowing
- To achieve and maintain the highest reasonable credit rating and lowest possible interest cost for each debt financing
- To allow for full and timely repayment of debt

- To preserve financing flexibility and to meet current and future capital funding and affordable housing development and redevelopment requirements
- To maintain a policy of full and open disclosure in conjunction with all debt financing transactions
- To maintain compliance with financial disclosure and reporting undertakings
- To ensure compliance with state and federal laws
- To ensure integrity of the debt management process

III. DELEGATION OF AUTHORITY

The President & Chief Executive Officer (“CEO”), through designated staff including the Chief Administrative Officer (“CAO”) and others, is responsible for the financial affairs of the Authority. This Policy grants the President & CEO, and his/her designee, the authority to select the debt financing team (“Financing Team”), coordinate the administration and issuance of debt, communicate with the rating agencies, as well as to fulfill all the pre-issuance and post-issuance disclosure information, all in compliance with applicable law.

The typical Financing Team consists of one or more of the following:

1. *Municipal Advisor*

- Assists with capital planning and long-term financial planning
- Coordinates the financing and debt issuance process
- Helps evaluate underwriter proposals and provides financial analysis and recommendations
- Reviews and provides advice on project-related debt and investor structure and terms
- Reviews all other project-related debt and equity documents to ensure there are no conflicts with the debt policy and material terms of the bond
- Assists with the securing of other professional services and other members of the Financing Team
- Monitors and evaluates market conditions for opportunities to issue debt at low interest rates
- Works with the Authority and underwriter to develop investor outreach and market approach
- Helps to manage competitive bid processes, as applicable
- Ensures negotiated prices are "fair" and reasonable in the marketplace

2. *Bond Counsel*

- Prepare an approving legal opinion
- Provide expert and objective legal opinion and advice
- Provide assistance as necessary with preparing and/or reviewing Board of Commissioners Resolutions and Board Reports
- Prepare and review documents necessary to authorize the, issue, sale and delivery of the bonds, as well as coordination of the authorization and execution of closing documents
- Review legal issues relating to the structure of the bond issue
- Review or prepare those sections of the official statement that relate to the bonds, financing documents, bond counsel opinion, and tax exemption

- Assist the Authority in presenting information to bond rating organizations and credit enhancement providers relating to legal issues affecting the issuance of the bonds
- Review the notice of sale or bond purchase contract for the bonds and review the continuing disclosure undertaking of the Authority
- Post-issuance advice for bond covenant and, if applicable, tax-exemption compliance

3. *Disclosure Counsel (as needed)*

- Prepare the 10b-5 opinion certificates and letter
- Prepare, review, and maintain drafts of preliminary and final official statements
- Assist as needed with filings made with the Municipal Securities Rulemaking Board's (MSRB) Electronic Municipal Market Access (EMMA) website and other websites

4. *Underwriter/Placement Agent*

- Provide the Authority with market knowledge
- Assist with credit analysis and preparation
- Assist the Authority in presenting information to bond rating agencies and credit enhancement providers and third party participants such as Fannie Mae or Freddie Mac Pre-marketing of the bonds
- Pricing and sale of bonds to investors or underwriter's in-house sale
- Trading of the bonds

5. *Trustee/Fiscal Agent/Paying Agent*

- Establishes and holds the funds and accounts relating to the bond issue
- Maintains the list of names and addresses of all registered owners of the bonds and recordings of transfers and exchanges of the bonds
- Acts as the authenticating agent
- Acts as the paying agent
- Protects the interests of the bondholders by monitoring compliance with covenants and acts on behalf of the bondholders in the event of default
- As the escrow agent, holds the proceeds from a refunding bond issue (either money or securities purchased with such bond proceeds) and uses such funds for the payments of debt service on the refunded bonds
- If acting as a dissemination agent, acts on behalf of the Authority to disseminate and/or post annual reports and event notices to repositories under Securities and Exchange Commission Rule 15(c)2-12

6. Credit Enhancement

Credit enhancement may be obtained from various sources such as Fannie Mae, Freddie Mac or bond insurers and may be used to improve or establish a credit rating or improve the interest rate and terms of the debt. Credit enhancement should only be used if it is cost effective.

IV. TYPES OF DEBT

The President & CEO's designee(s), with the assistance of a Municipal Advisor if desired, will examine and evaluate all available alternatives for new issues and make a recommendation to the President & CEO and the Authority's Board of Commissioners as to which type of financing is appropriate for a particular purpose.

Factors that should be considered include: 1) Is the issuing option appropriate under existing laws? 2) Are there formal policies with respect to the method of sale? 3) Does the nature of the proposed offering suggest that one method of marketing is more efficient than another? 4) Have the Authority's past issuance practices yielded acceptable results? and 5) Is the proposed issuance financially feasible and consistent with the stated mission of the Authority? Only after review and acceptance by the President & CEO will the proposed new debt issuance be presented to the Authority's Board of Commissioners for review and approval.

The following are the types of debt the Authority may issue:

1. New Money Bonds

New money bonds are bonds issued to finance the costs of acquisition, construction or rehabilitation of affordable housing developments or redevelopments or for any other purpose, including a general obligation purpose other than general operating costs, as permitted under California Health and Safety Code Sections 34200-34380 ("Housing Authorities Law") and as approved by the Authority's Board of Commissioners.

2. Refunding Bonds

Refunding bonds are bonds issued to refinance (refund) previously issued outstanding debt. The Authority may issue refunding bonds to refinance the principal of and interest on outstanding bonds or other debt to achieve debt service savings, restructure scheduled debt service, secure additional net proceeds, convert from or to a variable or fixed interest rate, change or modify the source(s) of payment and security for the refunded debt, or modify covenants otherwise binding upon the Authority. Refunding bonds may be issued either on a current or advance basis if permitted by law. Generally, all refunding issues must achieve at least a 3% net present value savings to the Authority.

3. Housing Revenue Bonds

Housing Revenue Bonds are generally issued to finance the acquisition, construction or rehabilitation of housing units or new housing projects, are secured by the applicable properties and rely on the revenues collected by the Authority from the properties to repay the debt.

4. Fixed Interest Rate vs. Variable Interest Rate Debt

Fixed interest rate debt is typically preferred to maintain a more predictable debt service burden. Variable interest rate debt can be utilized on a limited basis when the potential advantages of capturing the lowest interest rates available in the current market outweigh

the forecasted risks considering such factors as interest rate exposure over the repayment term.

5. Variable Rate Debt Obligation (VRDO)

Predetermined intervals are set where the rate can be reset to current market conditions. VRDO's with a long maturity can be priced as short-term instruments making it potentially a less costly option in a normal upward sloping yield curve environment and only with specific approval from the Authority's Board of Commissioners.

6. Capital Leases

Capital leases may be used to purchase buildings, equipment, furniture, vehicles, fixtures and intangible assets (such as water rights). The term of any capital lease will not exceed the useful life of the asset leased.

7. Conduit Housing Revenue Bonds

Conduit housing revenue bonds or notes are obligations issued by the Authority secured solely by revenues pledged by a third-party borrower which uses the proceeds of such bonds to acquire, construct or rehabilitate multifamily or other housing. Such bonds or notes are not a general or other obligation of the Authority but are an obligation of the third party borrower. The Authority's specific requirements for issuance of conduit revenue housing bonds will be set forth in separate policies and procedures adopted by the Authority's Board of Commissioners or in an amendment to this Policy approved by the Board of Commissioners.

8. Bank Loans

Under certain circumstances, it may be advantageous to obtain financing through a direct bank loan. Bank loans may be in the form of fixed rate or variable rate loans with defined maturities or lines of credit that have fixed or variable interest rates and flexible payment provisions. One advantage of direct bank loans is that the process for execution is generally less cumbersome and less expensive than with a public bond issue.

V. PURPOSE OF DEBT AND RELATIONSHIP TO CAPITAL IMPROVEMENT PROGRAM AND BUDGET

The President & CEO's designee(s), in consultation with relevant Authority Department Directors, shall assess and identify any capital needs and mission specific affordable housing goals to determine when facilities or housing units should be improved, rehabilitated or acquired and whether such actions are contemplated in the Authority's capital improvement program, budget or other planning documents. The President & CEO designee(s) shall make recommendations to the President & CEO regarding any debt financing and shall identify potential funding sources.

1. Long-term Debt

Long-term debt may be used to finance purchases or improvement of land or buildings for affordable housing or as otherwise permitted under the Housing Authorities Law when it is appropriate to spread these costs over more than one budget year. Long-term debt may

also be used to fund capitalized interest, costs of issuance, required reserves, and any other financing related costs which may be legally capitalized.

2. Short-term Debt

Short-term debt, such as notes and lines of credit may be used as an interim source of funding in anticipation of long term borrowing or may be issued for the same purpose as long-term debt.

3. Refunding

Periodic reviews of existing debt will be undertaken to identify refunding opportunities. Refunding will be considered (within State law and Federal tax law provisions) if and when there is a net benefit of refunding. Non-economic refunding may be considered to achieve Authority goals relating to changes in covenants, call provisions, operational flexibility, tax status, or the debt service profile. The Authority may purchase its bonds in the open market for the purpose of retiring the obligation when the purchase is cost effective. Generally, all refunding issues must achieve at least a 3% net present value savings to the Authority.

VI. MANNER OF SALE

There are a number of market factors that will affect the success of a bond offering and each should be carefully considered before selecting a method of sale. These factors include but are not limited to, the following: 1) market perception of the Authority's credit quality or the financial stability and income of the properties securing the debt on the applicable project, 2) interest rate volatility, 3) size of the proposed sale, 4) complexity of the proposed issue, and 5) competition with other issuers for investor interest (bond supply). The Authority may use either a competitive sale, a negotiated sale, or a direct/private placement of its bonds.

1. Competitive Sales of Bonds

The terms and prices of the bonds will be negotiated by the Authority and various underwriters through a bidding process amongst approved, impartial underwriters and/or underwriting syndicates. Both the Authority and the underwriter collaborate in the origination and pricing of the bond issue. The issue is awarded to the underwriter judged to have submitted the best value bid that offers the lowest interest rate, taking into account underwriting spread, interest rates and any discounts or premiums.

2. Negotiated Sale of Bonds

A method of sale for bonds, notes, or other financing vehicles in which the Authority selects in advance, on the basis of proposals received or by other means, one or more underwriters to work with it in structuring, marketing and finally offering an issue to investors.

3. Direct or Private Placement

A direct or private placement debt instrument is a variation of a negotiated sale in which the Authority, usually with the help of a Municipal Advisor, will attempt to place a new

issue directly with an investor. The investor will negotiate the specific terms and conditions of the financing before agreeing to purchase the issue. Direct or private placement issues are generally undertaken because the transaction is complex or unique, requiring direct negotiations with the investor or bank, when market conditions indicate that this type of sale may result in a lower interest rate on the debt, or because the issue is small and a direct offering provides economies of scale or reduces the cost of issuance.

VII. DERIVATIVE PRODUCTS

Because of their complexity, unless otherwise amended, derivative products such as *interest rate swaps*, inverse floaters, and other hybrid securities are prohibited by this Policy.

VIII. PERFORMANCE STANDARDS

The Authority strives to maintain 'investment grade' ratings in the municipal market. Ratings assigned by a nationally recognized statistical rating organization of "BBB" (or equivalent) of higher are considered investment grade (without regard to numerical or "+" or "-" modifiers within the BBB category). In certain circumstances, and with approval of the Authority's Board of Commissioners, the Authority may issue non-rated debt if the issuance is deemed financially sound and if it results in more savings to the Authority than obtaining an investment grade rating.

IX. MARKET RELATIONSHIPS

The CAO, or designee, will be responsible for maintaining relationships with investors, credit analysts, and rating agencies.

X. ON-GOING DEBT ADMINISTRATION

The CAO, or designee, will regularly review the Authority's outstanding obligations, particularly in declining interest rate environments. When rates begin to approach levels at which a refunding is cost-effective, the Authority may select a financing team in accordance with Article III to begin preparations for a refunding issue.

1. Continuing Disclosure

The Authority's Finance Department staff will ensure that the Authority's annual financial statements and associated reports are posted on the Authority's web site. The Authority will also contract with consultant(s) and/or shall utilize Authority staff, to comply with the Securities and Exchange Commission Rule 15(c)2-12 by completing and filing its annual financial statements, other financial and operating data and certain enumerated event notices for the benefit of its bondholders on the Electronic Municipal Market Access (EMMA) website of the Municipal Securities Rulemaking Board (MSRB).

2. Arbitrage Rebate Compliance and Reporting

The use and investment of bond proceeds must be monitored to ensure compliance with arbitrage restrictions. Existing regulations require that issuers calculate rebate liabilities related to any bond issues, with rebates paid to the federal government every five years and as otherwise required by applicable provisions of the Internal Revenue Code (“Code”) and regulations. The CAO, or designee, shall contract with an arbitrage specialist to ensure that proceeds and investments are tracked in a manner that facilitates accurate, complete calculations, and if necessary, timely rebate payments. The Authority shall ensure that arbitrage reports for all outstanding bond issues are prepared every five (5) years or more frequently if required by the Code and financing documents.

3. Post-Issuance Compliance

The CAO, or designee, shall ensure that the Authority complies with its internal Post-Issuance Bond Compliance Checklist and Post-Issuance Tax-Compliance Procedures for Tax-Exempt Bonds for each applicable debt issuance.

4. Record-Keeping

The CAO, or designee, shall ensure that all records are maintained, including closing transcripts, capital expenditures and other documents regarding the use of bond proceeds, all contracts relating to the use of tax-exempt debt and all records of investments related to the issuance of tax-exempt and taxable debt for at least ten (10) years after the last maturity date of such debt or 10 years after such debt is paid in full and any longer periods which may be required under the Authority’s Records Retention Policy and related schedules.

XI. INTERNAL CONTROL PROCEDURES REGARDING USE OF DEBT PROCEEDS

One of the Authority's priorities in the management of the debt is to ensure that the proceeds will be directed to the intended use for which the debt has been issued. In addition, the investments of proceeds of bonds or other forms of debt shall be consistent with federal tax requirements and any applicable State law, the Authority’s Investment Policy and with the requirements contained in the applicable governing financing documents. In furtherance of these requirements, the CAO will ensure procedures are established which include compliance with CDIAC’s Annual Debt Transparency Report.

XII. PROCEDURES

The President & CEO may provide for the development, administration and implementation of the procedures to be adopted in furtherance of this Policy (“Procedures”).

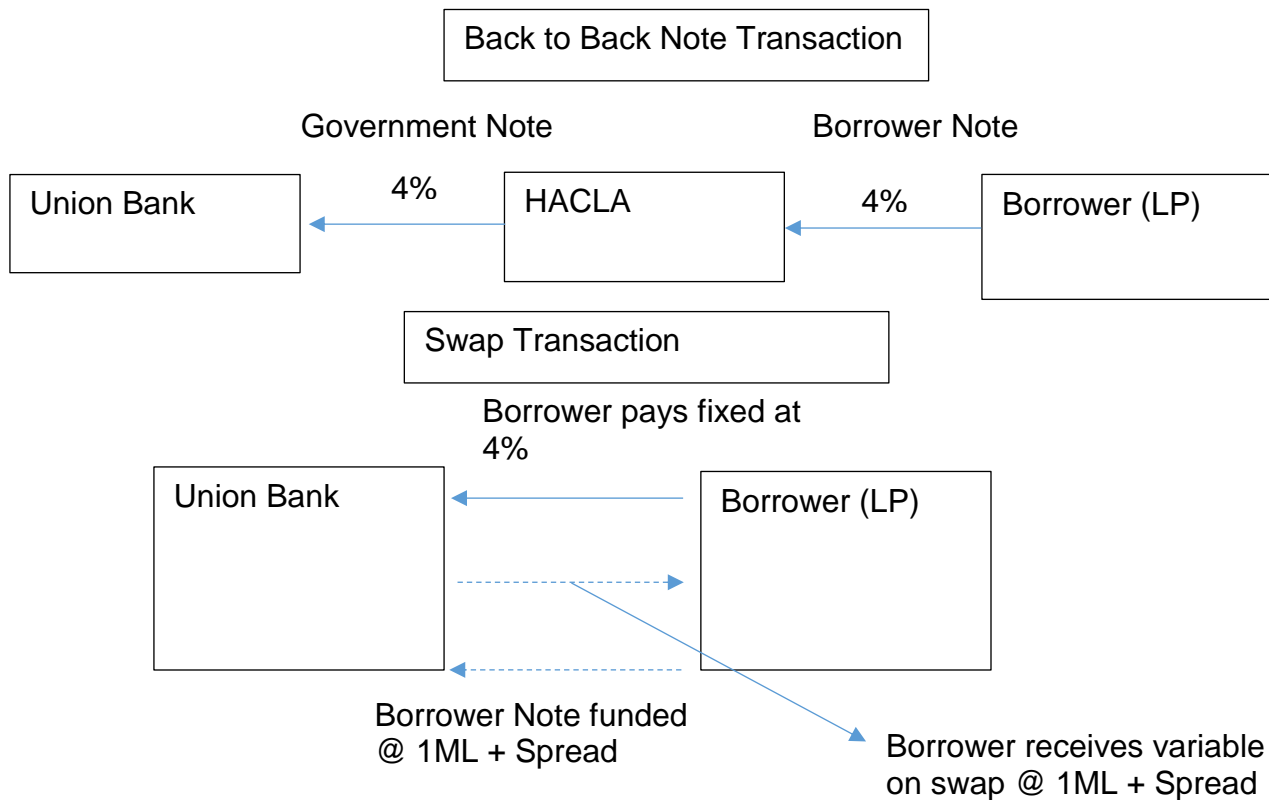
XII. AMENDMENTS TO THE POLICY

This Policy may only be amended by the Board of Commissioners.

Adoption and Revision History:

- *Adopted on December 19, 2017; Resolution #9404*

	Union Bank	Cover Bid
<i>Tax-Exempt Construction</i>		
Loan Amount	\$31,843,632	\$31,843,632
Index	LIBOR	LIBOR
Index Rate (January 21, 2021)	0.095%	0.150%
Floor	0.000%	0.500%
Spread	1.650%	1.250%
Coupon Rate	1.745%	1.750%
Bank Fees (origination, legal, other)	\$317,262	\$238,827
Loan Term	30 months	31 months
Amortization	None, I/O	None, I/O
Extensions	two, 90-days each	two, six-months each
<i>Taxable Construction</i>		
Loan Amount	\$6,773,153	\$6,773,153
Index	LIBOR	LIBOR
Index Rate (January 21, 2021)	0.120%	0.150%
Floor	0.000%	0.500%
Spread	1.750%	1.950%
Coupon Rate	1.870%	2.450%
Bank Fees (origination, legal, other)	\$40,639	\$50,799
Loan Term	30 months	31 months
Amortization	None, I/O	None, I/O
Extensions	two, 90-days each	two, six-months each
<i>Permanent</i>		
Loan Amount	\$15,633,000	\$15,633,000
Index	LIBOR	10-Year LIBOR Swap
Index Rate (January 21, 2021)	1.530%	1.350%
Floor	none	0.800%
Spread	2.000%	2.370%
Coupon Rate	3.530%	3.720%
Bank Fees (origination, legal, other)	\$0	\$156,330
Loan Term	17 years	18 years
Amortization	35 years (40 yrs possible)	40 years
LTV Limit	80%	80%
Minimum DSCR (x)	1.15	1.15



- HACLA as issuer is not party to the swap
- Union Bank funds the Borrower Note at 1 Month LIBOR + spread; this variable rate is also the rate on the Government Note prior to Conversion.
- Permanent loan rate on the Government Note and Borrower Note is fixed (assume 4%) following Conversion (fixed rate is set prior to closing as with the typical rate lock)
- To fix the permanent borrowing rate, Union Bank enters into an interest swap with the Borrower (AGP + MGP). This fixed rate kicks in after Conversion. Under the Swap,
 - Borrower receives from Union Bank variable rate = 1 Month LIBOR + spread; the variable rate received by the Borrower from Union Bank exactly offsets the variable rate nominally paid by the Borrower on the Borrower Note
 - Borrower pays Union Bank fixed rate (assume 4%)
 - Net effect: Fixed borrowing on Borrower Note/Government Note following conversion.
- Security for the Back to Back Note and Swap is the same: real estate collateral; non-recourse to the Borrower after conversion
- This structure is different from the interest rate swaps that received notoriety after the Great Recession:
 - No basis risk – variable swap rate paid by Union Bank should always equal the variable rate nominally paid by the Borrower –except for the highly unlikely event that interest rates drop below 0.0%.

Example Depicting a Negative Interest Rate Environment

	<i>Assumptions</i>	5/1/2024	6/1/2024	7/1/2024	8/1/2024
Permanent Loan Amount	\$15,633,000	\$15,633,000	\$15,614,105	\$15,595,155	\$15,576,149
Principal Payments (PPMT)	35 year Amort.	\$18,895	\$18,950	\$19,006	\$19,062
Fixed Interest Rate	3.53%	\$45,987	\$45,931	\$45,876	\$45,820
Amount Borrower Pays on Loan		\$64,882	\$64,882	\$64,882	\$64,882
Var. Rate Due on Loan	79% 1 ML + 1.65%	\$31,787	\$21,469	\$21,443	\$26,544
Var. Rate Received on Swap	79% 1 ML + 1.65%	(\$31,787)	(\$21,469)	(\$11,177)	(\$26,544)
Add'l Amount Borrower Pays on Swap		\$0	\$0	\$10,267	\$0
Total Payment by Borrower		\$64,882	\$64,882	\$75,149	\$64,882
Principal Balance (net of PPMT)		\$15,614,105	\$15,595,155	\$15,576,149	\$15,557,087
1 Mo LIBOR Assumption		1.00%	0.00%	-1.00%	0.50%
1-Mo LIBOR Floor of 0.0% (Loan)		1.00%	0.00%	0.00%	0.50%