



Office of the City Manager

CONSENT CALENDAR

December 2, 2025

To: Honorable Mayor and Members of the City Council

From: Paul Buddenhagen, City Manager

Submitted by: Scott Gilman, Director, Health, Housing, and Community Services

Subject: Companion Report: Loan Modification Requests for Housing Trust Fund Projects at 1139 Hearst Avenue, 3253 Adeline Street, and 1471 Addison Street and Update Interest Rates and Accrued Interest on Housing Trust Fund Loans

RECOMMENDATION

Adopt a Resolution approving the following actions to modify three existing Housing Trust Fund (HTF) loans by:

1. Authorizing the City Manager or designee to extend Resources for Community Development's existing HTF loan for 1139 Hearst Avenue (Hearst Street Apartments) for five years and reducing the interest rate for the remaining term to 3% simple interest. The principal amount of \$916,000 will remain the same.
2. Authorizing the City Manager or designee to combine South Berkeley Neighborhood Development Corporation's three HTF loans for 3253 Adeline Street (Lorin Station) into a new loan in the amount of \$1,230,117, with 0% interest and a new loan maturity date of May 7, 2079, to align with their 2021 emergency rehab loan. The Regulatory Agreement will have a term of May 7, 2079, to be coterminous with the loan maturity date.
3. Authorizing the City Manager or designee to refinance the existing HTF loan for 1471 Addison Street (Addison Court Housing Cooperative) into a new loan with a 55-year term and 3% simple interest. The principal amount of \$150,000 will remain the same. The Regulatory Agreement will have a term of November 1, 2080, to be coterminous with the loan maturity date.
4. Authorizing the City Manager or designee to execute all original or amended documents or agreements to effectuate these actions, including amendments to existing loan agreements.
5. Referral to staff to examine the HTF administrative guidelines to update the standards for interest rates and accrued interest for future HTF loans.

SUMMARY

The owners of three HTF projects requested modification to the terms of their existing HTF loans: Hearst Street Apartments, Lorin Station, and Addison Court Housing Cooperative (Addison Court). All three owners requested to extend their loan terms,

which either expired or are set to expire in the next year. No additional HTF funds have been requested. Staff support extending the loan terms and reducing the interest rate to 0% for Lorin Station, and 3% for Hearst Street and Addison Court consistent with the current HTF Guidelines. Extending the terms ensures continued affordability of 56 housing units for lower income households. At this time, staff respectfully do not support forgiveness of accrued interest for these three HTF projects as recommended by the Housing Advisory Commission (HAC). The City's investment of public funds in these projects needs to be protected, as repayments into the HTF will support the creation or preservation of more affordable housing units. Without accruing interest, the City's investment loses value over time. More research is required before staff can make a recommendation related to forgiving accrued interest that balances stewardship of public funds with the financial needs of City-funded affordable projects. Staff will review current loan modification criteria and assess the impact of forgiving accrued interest on the projects and on the City.

#### FISCAL IMPACTS OF RECOMMENDATION

In extending the three HTF loans, the City is forgoing full repayment in the short term, collectively estimated at \$5.17M (\$2.296M in principal plus \$2.875M in accrued interest), to ensure continued affordability. By refinancing the existing loans, the City will be able to extend its affordability requirements without adding new funding. The borrowers will continue to repay the City through residual receipts, when the projects have positive cash flow.

#### CURRENT SITUATION AND ITS EFFECTS

Owners of three HTF projects requested modification to the terms of their HTF loans for the following projects: Hearst Street Apartments, Lorin Station, and Addison Court Housing Cooperative (Addison Court). The Lorin Station loan and Hearst Street Apartments loan reached their loan maturity dates, and their respective loan repayments are past due. Addison Court's loan is due in October 2026.

Staff support extension of the loan term for Hearst Street Apartments by 5 years, giving RCD the opportunity to establish a plan for improving project cash flow and developing a plan to address capital improvements. The regulatory agreement recorded against the property will be in effect until 2055 and will continue to restrict the 32 multifamily units at an affordable level.

Staff also support extension of the loan terms for Lorin Station and Addison Court, and extension of the affordability period by 55 years; thus, ensuring long-term affordability for 14 units at Lorin Station and 10 cooperative units at Addison Court. In addition, staff supports reducing the interest rates for all three projects to provide relief from the higher 6% interest rate applied to the loans back in early 2000s when the interest rate ranged between 8-9%. No additional HTF funds were requested.

On September 4, 2025, the Housing Advisory Commission (HAC) supported the loan modification requests for these HTF projects with the following vote:

Action: M/S/C (Potter/Simon-Weisberg) to recommend City Council to:

1. Extend Resources for Community Development's existing HTF loan for 1139 Hearst Avenue (Hearst Street Apartments) for five years and reduce the interest rate for the remaining term to 3% simple interest. The principal amount of \$916,000 will remain the same.
2. Combine South Berkeley Neighborhood Development Corporation's three HTF loans for 3253 Adeline Street (Lorin Station) into a new loan in the amount of \$1,230,117, with 0% interest and a new loan maturity date of May 7, 2079, to align with their 2021 emergency rehab loan. The Regulatory Agreement will have a term of May 7, 2079, to be coterminous with the loan maturity date.
3. Refinance existing HTF loan for 1471 Addison Street (Addison Court Housing Cooperative) into a new loan with a 55-year term and 3% simple interest. The principal amount of \$150,000 will remain the same. The Regulatory Agreement will have a term of November 1, 2080, to be coterminous with the loan maturity date.
4. Authorize the City Manager or designee to execute all documents required to effectuate these actions, including amendments to existing loan agreements.
5. Forgive the accrued interest as of the effective date of the new and/or amended loan for each new loan for Hearst Street Apartments, Lorin Station, and Addison Court Housing Cooperative.
6. Direct staff to examine the HTF administrative guidelines to update the standards for interest rates and accrued interest for future HTF loans.

Vote: Ayes: Bell, Haycox, Micael, Potter, Shere, Simon-Weisberg, and Twu. Noes: None. Abstain: None. Absent: Scott.

- The HAC agreed with staff recommendations as stated in #1 through 4 above and added recommendations #5, to forgive the accrued interest to date for all three loans, and #6, to direct staff to examine the HTF Guidelines and update the standards for interest rates and accrued interest for future loans. While staff respect the commission's recommendations and share their desire to support the City's non-profit housing providers, staff respectfully do not agree with the recommendation to forgive accrued interest for these loans at this time. The City's investment of public funds in these projects needs to be protected, as repayments into the HTF will support the creation or preservation of more affordable housing units. Without accruing interest, the City's investment loses value over time. More research is required before staff can make a recommendation related to forgiving accrued interest that balances stewardship of public funds with the financial needs of City-funded affordable projects.
- Staff agree further examination of the City's loan modification standards is warranted, specifically regarding interest rates and forgiveness of accrued

interest. However, staff don't recommend providing a blanket approval of forgiveness of the accrued interest on these three loans and future loan modification requests until staff is able to complete a review of the loan modification standards, including what criteria should be considered if forgiveness of accrued interest is requested by a project sponsor. Retaining the ability for the City to recoup HTF loans with accrued interest remains a priority because the proceeds from repayment of these loans would go back to the HTF to support new affordable housing projects or rehab of existing projects.

### BACKGROUND

The City of Berkeley's HTF program provides loans to housing developers for the acquisition, development, and preservation of affordable housing in Berkeley. The older HTF loans, primarily those executed between the late 1990s and early 2000s, have 30-year terms and a 6% interest rate (prime rates were over 8.25% at that time). Recent HTF loans typically have 55-year terms and a 3% interest rate, per current HTF Guidelines. Under the current guidelines, the City Manager or designee can approve different interest rates, if required to support project feasibility. To date, the City's HTF rental housing portfolio consists of 60 projects with about 1700 affordable housing units serving extremely low to low-income households. Approximately half of these properties have loans coming due in the next 2-5 years.

When evaluating loan modification requests, staff consider multiple factors including:

- Financial necessity and the owner's ability to continue operating the project as affordable housing
- Long-term stewardship of City's investment in the project, ensuring housing affordability, and physical and financial viability of the property throughout the term of the City's loan and regulatory agreement; and
- Impact on owner's repayment of the City loan.

The following three HTF projects requested loan modifications:

- **Hearst Street Apartments** is a 32-unit multifamily affordable housing development located at 1133-39 Hearst Avenue and owned by Resources for Community Development (RCD). The Development Loan Agreement (DLA) requires 27 of the units at Hearst Street Apartments to be occupied by households whose incomes are at or below 60% Area Median Income (AMI).
  - In 1994, the City loaned RCD a total of \$916,800 in HTF funds for the acquisition and rehabilitation of Hearst Street Apartments. The loan has a 30-year term and a 55-year regulatory agreement, as was standard for HTF loans at that time. The principal balance and interest accrued at 6% simple interest per year was due and payable on August 30, 2024. The regulatory agreement recorded against the property will be in effect until 2055 and will continue to restrict the units at an affordable level.

- RCD was unable to pay off the City's loan when the term ended in August 2024. The total amount due is \$2.55M, including \$916,000 in principal and \$1,638,601 in accrued interest.
- RCD requested the loan term be extended by 5 years to August 30, 2029, to give them an opportunity to consider strategies for improving rental revenue and to explore other funding sources to support deferred maintenance and capital improvements at the property.
- Staff supports extension of the loan term by 5 years, and to reduce the interest rate from 6% to 3% simple interest to be consistent with current HTF Guidelines.

The City and RCD will revisit the loan terms at the end of the five-year extension period. At that time, it is anticipated RCD will have a plan to address the property's ongoing operations and a financing strategy to fund future capital improvement needs.

- **Lorin Station** is a mixed-use affordable housing development located at 3253–3269 Adeline Street with 14 residential units and approximately 4,500 square feet of ground-floor commercial space. It is owned by South Berkeley Neighborhood Development Corporation (SBNDC) The 1991 Development Loan Agreement requires 10 of the units at Lorin Station to be occupied by households whose incomes are at or below 50% of AMI.
  - SBNDC received three HTF loans for the development and maintenance of the property (a development loan of \$177,000 in 1989, and \$322,000 in 1991; and an emergency rehabilitation loan of \$730,742 in 2021).
  - The 1989 and 1991 loans were initially awarded as grants to SBNDC; they were converted to loans for the purpose of applying for tax credit financing.
  - The 6% simple interest incurred on the 1989 and 1991 loans collectively amount to \$1,020,064 (\$377,211 and \$642,853 respectively). The 1991 loan came due in December 2021, and the 1989 loan is due in October 2029. SBNDC did not have the financial resources to repay the 1991 loan in December 2001, which amounted to \$964,853 in principal and accrued interest to date. SBNDC requested the loans be converted back to grants.
  - Recognizing the original intent of Council was to provide the funds as a grant to help facilitate the development of Lorin Station, and at the same time in an effort to be consistent with current HTF Guidelines and practice, staff recommends refinancing the three City loans into a single loan in the amount of \$1,230,117 with an interest rate of 0% simple interest to be coterminous with the terms of the 2021 Emergency Rehabilitation Loan. SBNDC would repay the loan through residual receipts and only when surplus cash is available.

SBND is working on strategies to increase rental income and improve cash flow at Lorin Station, including the possibility of securing project-based rental assistance.

- Addison Court is located at 1135-1139 Addison Street with ten units. It is owned by the Addison Court Housing Cooperative (ACHC) and is self-managed by the cooperative's resident members. Since the project's inception in 1998, the property has provided a valued source of resident-managed affordable housing. The project provides affordable housing to very low- and low-income residents. According to the regulatory agreement, four units are restricted at 50% AMI, four units at 60% AMI, and two units at 80% AMI. The most recent annual compliance report shows the majority of ACHC households have incomes below 60% AMI.
  - In 1996, the City provided a \$200,000 HTF loan for the acquisition and rehabilitation of Addison Court.
  - Per the terms of the Development Loan Agreement, the City approved forgiveness of \$50,000 of the loan resulting in a new principal amount of \$150,000 and transferred ownership of the improvements to ACHC in 1998.
  - The 6% simple interest loan accrued \$216,657 in interest to date. The loan matures in October 31, 2026.

ACHC requested a loan modification to: Reduce the interest rate from 6% to 0% or reduce it to 3% if 0% interest is not feasible; forgive the accrued interest to date; and extend the loan maturity by 55 years.

To remain consistent with current HTF Guidelines and practice, staff supports ACHC's proposal to extend the loan maturity date by 55 years and to reduce the interest rate from 6% to 3%. Staff does not support forgiveness of accrued interest until staff has completed a review of the HTF Guidelines related to interest rate standards and criteria for forgiveness of accrued interest. Payment on the City's loan is based on residual receipts where ACHC would make payments if there is project cash flow. ACHC is seeking a loan modification in advance of the loan maturity date to enhance the project's financial stability, improve housing quality and achieve long-term stability through a structured business plan that will help ACHC reduce the property's debt and plan for major capital improvements needed in the next 20 years.

#### ENVIRONMENTAL SUSTAINABILITY AND CLIMATE IMPACTS

There are no environmental sustainability effects directly associated with the recommendations in this report.

#### RATIONALE FOR RECOMMENDATION

Staff support extending the loan terms and reducing the interest rates for Hearst Street Apartments, Lorin Station and Addison Court Housing Cooperative. All three projects are occupied, and all three serve households at lower incomes than is required in the

City's regulatory agreements. The proposed recommendations support the projects' continued operation as affordable housing. While staff do not currently recommend forgiving the accrued interest, staff will review the HTF Guidelines and internal policies around loan modifications, to assess the impacts of forgiving accrued interest to future HTF projects and to the City.

ALTERNATIVE ACTIONS CONSIDERED

None of the project owners are in a position to repay their HTF loans, and requiring repayment could result in a loss of affordability and displacement of existing, lower income residents. Staff considered HAC's recommendation to forgive the accrued interest on these and future loan modification requests but respectfully do not support this recommendation until staff completes a review of the loan modification standards, including what criteria should be considered if forgiveness of accrued interest is requested by a project sponsor.

CONTACT PERSON

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(510) 981-5263

Attachments:

1: Resolution

RESOLUTION NO. ##,###–N.S.

APPROVING LOAN MODIFICATIONS FOR THREE EXISTING HOUSING TRUST FUND PROJECTS: HEARST STREET APARTMENTS, LORIN STATION, AND ADDISON COURT HOUSING COOPERATIVE

WHEREAS, City Council established a Housing Trust Fund (HTF) program to assist in the development and expansion of affordable housing to low- and moderate-income persons who either work or reside within the City of Berkeley, and authorized the City Manager to implement the HTF program; and

WHEREAS, City Council adopted guidelines (HTF Guidelines) as revised on January 19, 2021, and authorized the HTF program in accordance with the Guidelines; and

WHEREAS, the City's older HTF loans, primarily executed between the late 1990s and early 2000s, typically have 30-year terms and 6% simple interest rates, while the current HTF Guidelines establish 55-year terms and 3% simple interest rate, and allow for City Manager or designee approval of any deviations from those standard terms; and

WHEREAS, the owners of three existing HTF projects—Hearst Street Apartments, Lorin Station, and Addison Court Housing Cooperative—requested modifications to the terms of their City loans in order to preserve long-term affordability and financial viability; and

WHEREAS, Hearst Street Apartments, a 32-unit multifamily development located at 1133–39 Hearst Avenue and owned by Resources for Community Development (RCD), has reached loan maturity, with \$916,000 in principal and approximately \$1.6M in accrued interest as of the writing of this report; and

WHEREAS, staff supports extending the Hearst Street Apartments loan term by five (5) years to August 30, 2029, and reducing the interest rate to 3% simple interest, consistent with current HTF Guidelines, to allow RCD time to improve project cash flow and plan for future capital improvements; and

WHEREAS, Lorin Station, a 14-unit mixed-use affordable housing development located at 3253–3269 Adeline Street and owned by South Berkeley Neighborhood Development Corporation (SBNDC), received three City HTF loans in 1989, 1991, and 2021 totaling approximately \$1.23 million; and

WHEREAS, the 1989 and 1991 loans have reached or are approaching maturity, and SBNDC lacks sufficient cash flow to repay them; staff recommends combining the three loans into a single residual receipts loan of \$1,230,117 with 0% simple interest and a new term of 55 years, coterminous with the 2021 Emergency Rehabilitation Loan; and

WHEREAS, Addison Court Housing Cooperative (ACHC), a 10-unit resident-managed cooperative located at 1135–1139 Addison Street, assumed a \$150,000 HTF loan in 1996 that accrues 6% simple interest and matures on October 31, 2026; and

WHEREAS, ACHC has requested, and staff supports, refinancing the existing loan with a new 55-year term and a reduced 3% simple interest rate to ensure continued financial stability and the ability to complete planned capital improvements; and

WHEREAS, the Housing Advisory Commission, at its September 4, 2025, meeting, voted unanimously to recommend approval of the three loan modification requests, while also recommending forgiveness of accrued interest and an update to the HTF Guidelines and administrative policies to allow for accrued interest forgiveness in all HTF loan modifications; and

WHEREAS, while staff supports the loan extensions and interest rate reductions consistent with HTF policy, staff respectfully does not recommend forgiveness of accrued interest at this time, pending further review of standards for interest forgiveness under the HTF Guidelines; and

WHEREAS, approval of these loan modifications will further the City's goals of maintaining and preserving affordable housing stock, supporting community-based ownership, and preventing displacement of lower-income Berkeley residents.

NOW THEREFORE, BE IT RESOLVED by the Council of the City of Berkeley that the City Council hereby approves the modification of three existing Housing Trust Fund (HTF) loans as follows:

- 1) Hearst Street Apartments – Authorize the City Manager or their designee to extend the existing HTF loan for five (5) years to August 30, 2029, and reduce the interest rate for the remaining term to 3% simple interest.
- 2) Lorin Station – Authorize the City Manager or their designee to combine the South Berkeley Neighborhood Development Corporation's three HTF loans into one new loan in the amount of \$1,230,117 plus accrued interest, with 0% simple interest and a 55-year term coterminous with the 2021 Emergency Rehabilitation Loan. The Regulatory Agreement will have a term of May 7, 2079, to be coterminous with the loan maturity date.
- 3) Addison Court Housing Cooperative – Authorize the City Manager or their designee to refinance the existing HTF loan in the amount of \$150,000 plus accrued interest, into a new 55-year loan term at 3% simple interest. The Regulatory Agreement will have a term of November 1, 2080, to be coterminous with the loan maturity date.

BE IT FURTHER RESOLVED that the new loans for Lorin Station and Addison Court Housing Cooperative will have not-to-exceed amounts that include the principal of their original loans, plus the amount of interest accrued as of the effective date of the new loans.

BE IT FURTHER RESOLVED that City Council hereby refers to staff to examine the HTF administrative guidelines to update the standards for interest rates and accrued interest for future HTF loans.

BE IT FURTHER RESOLVED that the City Manager or designee is authorized to execute all original or amended documents, promissory notes, regulatory agreements, or other instruments necessary to effectuate these loan modifications.