



April 19, 2021

The Honorable Donna Purvis
601 W. Jefferson Street
Louisville, KY 40202

Dear Councilwoman Purvis,

I am writing to thank you for meeting with New Directions executive staff on Monday March 22, 2021 to discuss a loan restructure request the organization has made to Louisville Metro on behalf of Directions Apartments.

You may recall from our discussion that Directions Apartments consists of 110 affordable housing units, catered to individuals of extremely low income, 30% AMI or below. We also shared with you that 72 of the units in this portfolio are located within your district.

We have held subsequent meetings with other councilmembers to share with them the details of our request and solicit their feedback and allow an opportunity for questions. Since our discussion with you on March 22nd, we have met with President James, and Councilpersons Dorsey, Hollander, Kramer, Reed, and Winkler. The feedback we have received during these meetings was a general understanding and favorable response regarding the loan modification, payment on principal and renovations to be made to the property based on our ability to refinance the first mortgage.

It is based on this feedback, and our strong desire to continue to sustain affordable housing catered to those of extremely low income that we ask for your support in sponsoring our request to Metro Council for a loan restructuring of the debt held between Louisville Metro and Directions Apartments. I have attached a copy of the loan restructuring request that has been approved by Metro staff, for your reference.

If we are able to receive a response of support from you by April 30th, we believe we will be able to move forward with Metro staff to have the paperwork prepared for the subsequent council meeting.

We sincerely appreciate your consideration to sponsor this request.

Additionally, I'd like to note that Metro staff have shared some feedback and concerns you have regarding maintenance, tenant activity and our tenant screening process at some of our buildings. We would greatly welcome the opportunity to meet with you to better understand your concerns and put together plans and action steps to continuously improve the performance of our work, and the services we provide to the community. If acceptable to you, we will work with your assistant to schedule a meeting very soon.

Sincerely,

A handwritten signature in blue ink that reads "Leah Driver".

Leah Driver
Chief Financial Officer



February 16, 2021

Dear Stephanie,

I am writing to follow up from our recent discussion on Directions Apartments outstanding debt with Louisville/Jefferson County Metro Government ("LMG").

Our records indicate that the current balance and accrued interest on second mortgage held with Louisville Metro Government as of December 31, 2020 is as follows:

Principal Balance	\$1,427,871
Accrued Interest (3% per annum since March, 2003)	<u>\$ 559,119</u>
Total Amount Outstanding	\$1,986,990

As you recall, our most recent request set forth in my December 23, 2020 message to you, was to provide a cash payment of \$215,000 to LMG and request forgiveness of all remaining outstanding debt and accrued interest. Based on the feedback we received during our discussion of this subject held over a video conference on January 28, 2021, we would like to have modify our previous offer, but also review different aspects of the LMG loan and the refinance that help explain the reasoning behind New Directions' revised offer.

As we have discussed, New Directions desires to take advantage of the historic drop in interest rates that have occurred recently. The current interest rate on the first mortgage is 6.5% per annum. New Directions has received quotes from its first mortgage lender of an interest rate approximately three full percentage points lower.

Here is a short summary of the amount of the refinanced first mortgage loan and the costs associated with it:

Payoff of Existing First Mortgage Loan (as of 12/31/20)	\$ 680,012
Proposed Paydown of LMG Second Mortgage Loan	400,000
Estimated Closing Costs	44,988
Proposed Renovations to Property	<u>1,000,000</u>
New Refinanced Loan Amount	\$2,125,000

This significant drop in interest rates will allow New Directions to use approximately \$1,000,000 in net proceeds from this refinance for necessary renovations to the property that will help preserve these HAP subsidized affordable housing units well into the future. In addition, the increase in the annual debt service payment is approximately \$20,000, which New Directions believes is sustainable.

Please also note that the current accrued interest on the LMG of \$559,119 represents 28% of the total debt to LMG. In 2003, when this debt was originated, a 3% per annum interest rate was well below the market rate. Now, 18 years later, it is much closer to market rate. New Directions estimates that, if interest continues to accrue at this rate, the accrued interest balance at maturity in March, 2033 will be \$1,080,292.32. This ever-increasing accrued interest is an amount that New Directions will never be able to repay out of surplus cash.

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Here are the terms of New Directions' revised request for modification of the LMG debt:

Current Outstanding Balance	\$ 1,986,990
Forgive Accrued Interest (3% per annum since March, 2003)	(- \$ 559,119)
Apply Previous Payments Made to Loan Principal	(- \$ 197,642)
Partial Principal Forgiveness	(- \$ 322,729)
Paydown of Principal	<u>(- \$ 400,000)</u>
Total Remaining LMG Debt	\$ 507,500

1. New Directions requests a reduction in interest rate on the remaining LMG second mortgage debt from 3% to 0% per annum to prevent accrued interest from rivaling the size of the principal debt, which was never the intention of LMG.
2. New Directions requests change in the surplus cash split from 80/20 to 50/50 since New Directions is putting funds back into the property to renovate it and is also increasing its first mortgage debt service.

The terms of New Directions' requested modification are reliant on its ability to refinance the first mortgage on the property at an interest rate of 3.5% or less assuming an appraised property value of \$3,510,000. In addition, the terms are subject to LMG's agreement to subordinate its mortgage debt to the refinanced first mortgage.

New Directions believes these modified terms will help it sustain these critical affordable housing units into the future while providing a realistic path for New Directions to repay its debt to LMG. New Directions would like to remind LMG that it has already paid LMG \$197,642 over the term of this loan. As a result, here's a summary of what New Directions will be paying to LMG and toward the renovation of this property, which is of benefit to our entire community:

Amounts Previously Paid by New Directions	\$197,642
Paydown of LMG Loan at Refinance	\$400,000
Proposed Repairs from Refinance Proceeds.	<u>\$1,000,000</u>
Total Investment in Directions Apartments	\$1,597,642

As you can see, this total investment is greater than the \$1,427,871 principal amount of the LMG debt. It is also an investment New Directions is proud to offer to its residents with the help of its partner, LMG, in assuring that these critical 110 units of affordable housing remain in Louisville's affordable housing stock.

We would be pleased to discuss these terms with you and LMG further.

Sincerely,

Leah Driver, CPA
Chief Financial Officer

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