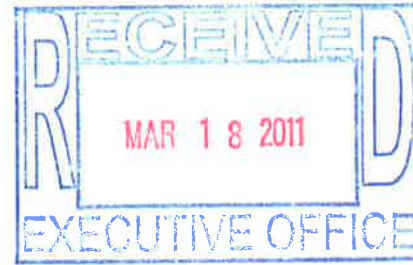




U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-5000

ASSISTANT SECRETARY FOR
PUBLIC AND INDIAN HOUSING

MAR 11 2011



Mr. Lewis Jordan
Chief Executive Officer
Chicago Housing Authority
60 E. Van Buren Street
Chicago, IL 60605

Subject: Purchase of Bank Note for Unsold Cabrini Condo Units

Dear Mr. Jordan:

Thank you for your letter of January 13, 2011 regarding your proposal to address the unsold market-rate units at Phase IA of the Cabrini/Parkside HOPE VI mixed-income development. Thank you also for responding to the Department's numerous questions and concerns over the past several weeks regarding your proposal. We understand the importance of the Cabrini redevelopment effort to the City's overall Near North Redevelopment Initiative as well as on the entire Plan for Transformation of public housing in Chicago. We also are acutely aware that the decline in the real estate market since 2008 is affecting HOPE VI revitalization plans nationally, particularly plans which include market-rate, for sale components. Where possible, we are interested in assisting to mitigate the impact of the market decline on these important revitalization efforts.

At Cabrini/Parkside, the construction lender (Chase Bank) is taking steps to put 75 unsold market-rate condominium units up for auction. After unsuccessful attempts to secure bridge financing from another source such as the City or the State of Illinois and in order to keep the units from going to auction, CHA has requested HUD approval to use its MTW funds as a bridge loan to assume the distressed Chase note at a deep discount. This note is secured by the 75 unsold housing units as well as a small parcel of property on which building foundations have been installed, but no further construction has occurred. CHA contends that the discounted purchase of the note will allow the developer to create a broader marketing strategy that includes families earning 80 percent or less of area median income (AMI). Specifically, the reduced cost of the note will allow the developer to reduce costs to offer some of the units for a price within the reach of lower-income families. Additionally these lower income families would also be eligible to receive down payment assistance through the City's "Find Your Place in Chicago" program.

As you noted in your letter, the Department can only authorize the use of MTW funds in accordance with the requirements of the Moving to Work Demonstration Act, 42 U.S.C. 1437f. Section 204(b) of said statute requires that funds be expended "to provide housing assistance for low-income families." The Department agrees with CHA that providing housing to low-income families would be consistent with the goal of Section 204(a) of the Moving to Work Demonstration Act, 42 U.S.C. 1437f, which states that one of the purposes of the Act is to "increase housing choices for low income families." By purchasing the note and providing the ability to the developer to market some of these units to low-income families, CHA would be

providing an additional housing choice to low-income persons and would be doing so in a low-poverty area and in a mixed income community. You also noted that by gaining control over uncompleted buildings, CHA is providing flexibility to the Cabrini developer, Parkside Old Town I, LLC (Developer) to offer additional housing choices to low-income families as well as direct housing assistance to low-income families by ensuring construction of either ACC or project-based voucher supported units. The overall unit mix that provides low-income, affordable and market rate units will still be adhered to as set forth in the development plan.

Accordingly, HUD approves CHA's request to purchase the note from Chase Bank in accordance with the following requirements. HUD's decision relies on CHA's legal opinion that the proposal is consistent with the Cabrini Consent Decree governing the unit mix at the Cabrini/Parkside site and with the FHA Commissioner's approval of FHA insurance, which includes a waiver in connection with single family insurance requirements, dated April 29, 2010.

Loan Structure

CHA understands and agrees that the use of MTW funds to purchase this note will be structured as a bridge loan with the understanding that units will be marketed and sold to families below and above 80% AMI. At a minimum, 8 units must be sold to families at or below 80% AMI. This is necessary to meet the requirement of the MTW Demonstration Act that funds be expended "to provide housing assistance for low-income families." Upon sale to a family above 80% of the area median income, the CHA must reimburse its MTW funds in proportion to the amount of the note associated with the sold unit. MTW funds associated with sales to any family at or below 80% of the area median income will not need to be reimbursed.

Integrated Marketing Campaign

CHA will require the Developer to launch an integrated marketing campaign that targets the currently unsold units that are not income restricted in accordance with the development plan. CHA has stated it believes that given the new reduced pricing of the units, buyers will include households at or below 80% of the area median income, and the Developer will be required to target the marketing efforts accordingly. The Developer will also be required to market all of the available units broadly, including efforts to market the units to families at or below 80% AMI, such as current CHA families and those on the CHA's waiting lists. CHA will require that the Developer remain an integral part of the marketing and operational process.

Rental of Unsold Units

After the first 12 months of the marketing campaign, if CHA and the Developer have sold at least 8 units to families at or below 80% AMI, then CHA and the Developer may continue to market the remaining units for sale. If less than 8 units are sold to families at or below 80% AMI, then CHA and the Developer must rent 50% of the remaining units to families at or below 80% AMI. The CHA and the Developer will continue to market remaining unsold units during an additional 6-month period. All units remaining unsold at the end of the additional 6-month period would then be made available for rental. These rentals will be apportioned in line with the Cabrini Consent Decree: 50% to market rate families; 20% to affordable families; and 30% to low-income families. To the extent that units are rented to market rate families, CHA will reimburse its MTW funds in proportion to the amount of the note associated with these market rate units. All of these rental units can continue to be marketed for sale, subject to the terms of

the lease agreements on the rented units.

The marketing campaign will be deemed to begin once CHA draws down the MTW funds to provide the bridge loan discussed herein.

In the event that HUD and the CHA determine that any units must be rented in accordance with the above paragraph, CHA and the Developer will jointly submit a request to HUD's Homeownership Center in Atlanta for approval of another waiver in connection with the approval of mortgage insurance granted on April 30, 2010. CHA will also notify all interested parties of such application, including counsel for the Gautreaux plaintiffs.

Construction of New Units

The Developer will prepare and finalize plans for construction on the existing foundations. The buildings which were to be constructed upon these foundations were approved as part of the original Phase IA closing and were to include public housing as well as affordable and market rate units, but plans were subsequently restructured as a result of market conditions and the units that were to be public housing were placed in the elevator buildings instead. The Developer has indicated its intent to build public housing and/or project-based voucher units on these foundations. HUD encourages CHA and the Developer to consider a mix of units on these sites, including those serving families at or below 80% AMI and market rate units. CHA must reimburse its MTW funds in proportion to the amount of the note associated with any market rate units that are developed.

Moving to Work Authority for Flexible Use of Funds

As CHA requires MTW flexibility in order to purchase the notes in accordance with this approval, HUD will authorize this additional purpose via an amendment to CHA's MTW agreement. HUD is not authorizing any other uses of this flexibility at this time. A draft amendment acceptable to HUD is included. CHA previously submitted an amendment (Amendment 5) to broadly use its funds outside of Sections 8 and 9. This amendment had been submitted for public comment and a public hearing had been held, as required in CHA's MTW Agreement. Because the included draft is a limited version of an amendment already subjected to public review and comment, an additional public hearing on this amendment will not be required. HUD will authorize this additional purpose upon execution of the amendment by HUD.

Reporting Requirements

HUD intends to monitor the Developer's marketing efforts and progress under this proposal. Thirty days from the date of this letter, CHA must submit a narrative description of the Developer's revised marketing and pricing plan, along with a schedule for implementing the plan. Once the revised marketing is underway, CHA must submit to HUD a monthly report outlining progress as of the last business day of each month. The monthly report should be submitted to me, with copies to Jan Elson and Abbey Ogunbola in the Chicago HUD Office, and should include information such as the number of potential buyer visits to available units, number of signed contracts and number of closings by income group (0-60%, 61%-80%, 81-120% and above 120% AMI).

CHA should note that the Department is not inclined to approve an assumption of a note for unsold units in other CHA projects. It is only because of the large number of units involved at Cabrini/Parkside and the short time frame before possible auction that the Department is willing to consider this restructuring. For other projects in similar circumstances, the Department encourages CHA to investigate other sources of funds.

The Department looks forward to working with CHA on the new marketing campaign for the unsold Parkside units and to the successful completion of the Cabrini/Parkside Revitalization Plan. Should you have any questions, please do not hesitate to contact me.

Sincerely,

A handwritten signature in cursive script, appearing to read "Dominique Blom". The signature is written in black ink and is positioned above the typed name and title.

Dominique Blom
Deputy Assistant Secretary
Office of Public Housing Investments

cc: Steve Meiss, Director, Public Housing, Chicago Regional Office
Althea Forrester, Assistant General Counsel, HUD Headquarters
Jan Elson, Office of Regional Counsel, Chicago Regional Office

**FIFTH AMENDMENT TO AMENDED AND RESTATED MOVING TO WORK
AGREEMENT
BETWEEN
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
AND
CHICAGO HOUSING AUTHORITY**

This Fifth Amendment to the Moving to Work ("MTW") Agreement ("Agreement") is entered into by and between the United States of America through the U.S. Department of Housing and Urban Development ("HUD") and the Chicago Housing Authority ("CHA") and is effective on the date of execution by HUD. Unless otherwise defined herein, all capitalized terms used herein shall have the same meanings ascribed to them in the Agreement.

Attachment D is amended as follows:

Add the following language after Section 24 of Attachment D:

Section 25:

Use of MTW Funds

The CHA and HUD acknowledge that Section 204(a) of the Omnibus Consolidated Rescissions and Appropriations Act of 1996 (Pub. L. 104-134) provides that an agency participating in the MTW demonstration program may combine public housing operating and capital funds provided under Section 9 of the U.S. Housing Act of 1937 (the "1937 Act") and voucher program funds provided under Section 8 of the 1937 Act "to provide housing assistance for low-income families, as defined in section 3(b)(2) of the 1937 Act, and services to facilitate the transition to work on such terms and conditions as the agency may propose and the Secretary may approve." This Amendment number 5 provides a limited exception to any language that restricts the use of funds to Sections 8 and 9 and authorizes the Agency to use MTW Funds to provide housing assistance for low-income families, as defined in section 3(b)(2) of the 1937 Act, only for activities expressly enumerated in this Amendment, provided such uses are consistent with other requirements of the MTW statute [i.e., including but not limited to the requirements to maintain a comparable mix of families and serve substantially the same number of families as would have been assisted if the agency was not in the MTW demonstration, assuring that housing assisted under the demonstration meets housing quality standards established or approved by the Secretary, that at least 75 percent of the families assisted be very low income families, that the agency has established a reasonable rent policy that is designed to encourage employment and self-sufficiency by participating families, that the requirements of sections 12 of the 1937 Act are applied to any housing assisted under the demonstration other than housing assisted solely because of occupancy by families receiving tenant-based assistance, and that Section 18 of the 1937 Act shall continue to apply to public housing notwithstanding the use of any use of the housing under the demonstration].

Notwithstanding the above, funds used in accordance with the authorizations contained in this amendment remain Federal funds, and are subject to any and all other Federal requirements outside of the 1937 Act (e.g., including but not limited to Appropriations Acts, competitive HUD notices of funding availability under which the CHA has received an award, state and local laws,

Federal statutes other than the 1937 Act, and OMB Circulars and requirements), as modified from time to time.

This Amendment authorizes the following enumerated activities subject to the following conditions:

Authorization to Purchase Note

This Amendment authorizes the CHA to purchase a note held by Chase Bank (hereafter the "Note") for a construction loan to Parkside Old Town I, LLC (hereafter the "Developer"), the developer of the former Cabrini-Green housing project on the Near North side of Chicago (now known as Parkside of Old Town, hereafter "Parkside") that is secured by the Parkside property that the CHA is redeveloping. The CHA understands and agrees that the use of MTW funds to purchase this Note must be structured as a bridge loan.

As a condition of the authorizations enumerated in this Amendment, the CHA agrees to the following:

Proportionate Unit Value

Within two weeks of purchasing the Note, the CHA will create a matrix that assigns a proportionate share of the principal value of the Note to each unsold unit based on a reasonable methodology based on number of bedrooms, location, amenities, etc.

Requirements for Agreement with Developer

Within two weeks of the closing on the purchase of the Note, the CHA will enter into a written agreement with the Developer that will require the Developer to comply with the following requirements:

- a. The Developer will market unsold units at Parkside that are not income restricted in accordance with the development plan to families below and above 80% AMI. At a minimum, the Developer will market the units to current CHA families and those on the CHA's waiting lists in addition to other families below 80% of AMI. The Developer must remain an integral part of the marketing and operational process.
- b. The Developer must sell at a minimum 8 units to families with incomes at or below 80% AMI. If the Developer succeeds in selling the minimum required 8 units within a year of the effective date of this Amendment, it and the CHA may continue to market remaining units for sale to families above 80% of AMI.
- c. If less than 8 units are sold to families with incomes at or below 80% AMI by the end of a year from the effective date of this Amendment, then the Developer must rent 50% of the remaining unsold units to families at or below 80% AMI. The Developer will continue to market remaining unsold units during an additional 6-month period.
- d. At the end of the additional 6-month marketing period, the Developer must make all remaining unsold units available for rental. The Developer is required to apportion all rentals of the unsold units in line with the Cabrini Consent Decree: 50% to market rate families; 20% to affordable families; and 30% to low-income families.

- e. All rental units can continue to be marketed for sale, subject to the terms of the lease agreements on the rented units.
- f. In the event that any units must be rented in accordance with the requirements outlined above, the CHA and the Developer will jointly submit a request to HUD's Homeownership Center in Atlanta for approval of another waiver in connection with the approval of mortgage insurance granted on April 30, 2010. The CHA will also notify all interested parties of such application, including counsel for the Gautreaux plaintiffs.
- g. The Developer must report to the CHA on sales proceeds (or rental income net of operating expense) which derive from sale (or rent) to market rate owners or owners at or below 80% of AMI.
- h. The Developer must remit any proceeds of the sale of units and any rental proceeds that exceed operating expenses from the units at Parkside to the CHA.
- i. The Developer will provide the CHA with the information necessary for the CHA to comply with its reporting requirements outlined below.

Disposition of sales and rental proceeds

Upon receipt of sale proceeds or rental proceeds from the Developer derived from sale or rental of a unit to a family above 80% AMI, the CHA must use the sale or rental income to reimburse its MTW funds. Regardless of the sale price of a unit, the CHA must reimburse its MTW funds no less than the proportionate unit value pursuant to the Proportionate Unit Value section above at the time that it receives sales proceeds for a unit sold to a family above 80% AMI.

Sale proceeds or rental proceeds from the Developer derived from sale or rental to any family at or below 80% AMI are considered program income and the CHA is not required to reimburse its MTW funds with this income.

Reporting Requirements

Thirty days from the effective date of this Amendment, the CHA must submit a narrative description of the Developer's revised marketing and pricing plan, along with a schedule for implementing the plan. Once the revised marketing is underway, the CHA must submit to HUD a monthly report outlining progress as of the last business day of each month. The monthly report must be submitted to the Deputy Assistant Secretary for Public Housing Investments, with copies to HUD's Office of General Counsel in the Chicago Field Office (to the attention of Jan Elson) and to the CHA's HOPE VI/mixed finance liaison, Abbey Ogunbola, in the Chicago HUD Office. At a minimum the report must include the following information: the number of potential buyer visits to available units, the number of signed contracts and number of closings by income group (0-60%, 61%-80%, 81-120% and above 120% AMI).

Except as provided in this Amendment No. 5, every term and condition contained in the MTW Agreement, as amended by previous amendments shall continue to apply with the same force and effect as if it were fully set forth herein.

IN WITNESS WHEREOF, the parties have caused this Fifth Amendment to be executed by their duly authorized representatives.

Chicago Housing Authority

By: 

Name: Lewis A. Jordan

Its: Chief Executive Officer

Date: 03/23/11

UNITED STATES DEPARTMENT OF HOUSING
AND URBAN DEVELOPMENT

By: 

Name: Sandra B. Henriquez

Its: Assistant Secretary, Public and Indian Housing

Date: 03/11/2011