

HOUSING AND REDEVELOPMENT AUTHORITY OF THE CITY OF SAINT PAUL, MINNESOTA

REPORT TO THE COMMISSIONERS

DATE: MARCH 9, 2011

**REGARDING: APPROVAL OF CHARGE OFF OF AN HRA LOAN TO POP! RESTAURANT,
INC. AND K. CLARK KNUTSON, DISTRICT 17**

Requested Board Action

Charge off the HRA loan made to POP! Restaurant, Inc. and K Clark Knutson in the amount of \$96,425.00 plus accrued interest

Background

The HRA Board approved the Unified Credit Process in early 1995. A formal charge-off policy was established as part of the credit process. The charge-off policy included delegation of charge-off authority to the Executive Director on all loans (in whole or in part) with an outstanding principal balance of \$50,000 or less, as long as certain criteria was met. Loans with a principal balance of greater than \$50,000 must be brought to the HRA Board for action.

The loan presented for charge off has gone through a collection process, including a review of all creditor remedies available to assure that maximum asset recovery is achieved.

In June 2008 the HRA made a loan in the amount of \$96,425.00 at 6.5% with a 6 year amortization to POP! Restaurant, Inc. and K. Clark Knutson for the purpose of acquiring equipment for the POP! Restaurant located at 6 West Sixth Street, the corner of Wabasha and Sixth. The HRA loan and collateral was in a subordinate position to a first position SBA guaranteed loan from Bremer Bank. Although the loan terms called for interest only until August 2009 at which time payment of interest and principal was scheduled to begin, sales never achieved levels sufficient to pay for all expenses. Knutson closed both the Saint Paul and his Minneapolis POP! Restaurants in August 2010 due to ongoing lack of working capital, insufficient sales, a State of Minnesota tax lien that prevented him from getting liquor inventory and a serious car accident which left him unable to work. In September 2010 POP! and Knutson filed for Chapter 7 bankruptcy. Chapter 7 Discharge of Debtors was granted January 4, 2011.

The real estate mortgage on Knutson's residence at 406 Wacouta Street, Unit 315 was foreclosed by senior lender.

Staff certifies that the HRA loan in the amount of \$96,425 plus accrued interest is in default and should be charged-off as it has been determined to be uncollectible. The charge-off satisfies a public purpose, will not serve any private benefit, is consistent with sound business practices, and generally acceptable accounting practices.

The Credit Committee changed the Risk Rating from Vulnerable to Loss on 12-20-10.

The Credit Committee approved the charge off on February 14, 2011.

Budget Action

N/A

Future Action

N/A

Financing Structure

N/A

PED Credit Committee Review

The Credit Committee approved the charge off on February 14, 2011.

Compliance

N/A

Green/Sustainable Development

N/A

Environmental Impact Disclosure

N/A

Historic Preservation

N/A

Public Purpose

N/A

Recommendation

Approve the Resolution Attachment A charging off the HRA loan to POP! Restaurant and K Clark Knutson.

Sponsored by: Commissioner Thune

Staff: Craig O'Brien 651-266-6695

Attachments

- **Attachment A -- Resolution**