

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

REPORT TO THE COMMISSIONERS

DATE: MARCH 28, 2012

**REGARDING: AUTHORIZATION TO ISSUE SATISFACTION OF MORTGAGE ON
FORGIVABLE LOAN WITH HAZEL PARK HEIGHTS, LLC, GREATER EAST
SIDE, DISTRICT 2**

Requested Board Action

The specific actions being requested of the HRA Board is authorization to approve issuance of a full Satisfaction of Mortgage for Forgivable Loan with Hazel Park Heights, LLC.

Background

On September 28, 2005, by Resolution 05-09/28-5, HRA approved the Hazel Park Heights Condominium Project and provided financing assistance in the form of a \$1,190,000 forgivable loan and an HRA Guaranty of \$600,000 on presale requirements (collectable only if another four units were not sold within 12 months from date the final overall Certificate of Occupancy is issued). HRA had to provide the \$600,000 guaranty to Anchor Bank, closed on the purchase of five units on 11/12/08. These units are currently being marketed. \$44,074.07 of the forgivable loan was to be forgiven as each unit was sold. The loan has been reduced by \$661,111.05 with the sale of 10 units and the purchase of 5 by the HRA. The current balance is \$528,888.95 to be forgiven over the next 12 sales.

Hazel Park Heights, LLC, was formed for this specific development. The LLC consists of North East Neighborhoods Development Corporation (NENDC) local non-profit and Hazel Park Investor, LLC. Hazel Park Investor, LLC consists of Zeman Construction Company and Dennis Guptil, who brought the construction financing to the project. NENDC was the owner of the property. Marketing the units has been ongoing for more than three years with minimal success. Contract for Deed and lease purchase programs have been offered in marketing these units. These ideas were discussed with the homeowner's association's nine original buyers, who have also been marketing through word of mouth. Hazel Park Heights, LLC's loss thus far is in

excess of \$600,000. This will continue to grow due to slow sales, long term carrying costs, and reductions of sales prices.

Since this forgivable loan was never intended to be repaid, improvements have been successfully completed for almost four years, the property has been well maintained with no complaints from homeowners, Hazel Park Heights, LLC has requested that the remaining amount of the Forgivable Loan be satisfied.

Anchor Bank, the holder of the original construction mortgage sent a letter to Hazel Park Heights, LLC indicating that they will not be renewing the construction mortgage again this year and demanding full repayment of the construction mortgage, even though the owner/developer has never missed or been late on a payment. The balance of this forgivable loan is reflected on Hazel Park Heights, LLC books as a current liability and is adversely affecting debt covenants and ratios. Now that Hazel Park Heights, LLC must secure another loan for the building, this forgivable loan is impacting the ability of Hazel Park Heights, LLC's ability to secure a new loan at reasonable terms. If a new loan is not secured, Anchor Bank could foreclose on the building.

Budget Action

No budget action is being requested.

Future Action

No future action will be required.

Financing Structure

NA

PED Credit Committee Review

Credit Committee reviewed during Portfolio Review process and recommended approval of the satisfaction.

Compliance

This development complied with all compliance requirements when the project was built.

Green/Sustainable Development

N/A. Property was built prior to City/HRA Sustainability Policy.

Environmental Impact Disclosure

N/A

Historic Preservation

N/A

Public Purpose/Comprehensive Plan Conformance

This action supports all three strategies of the Housing Chapter of the City's Comprehensive Plan: 1) build on Saint Paul's strengths in the evolving metropolitan housing market; 2) preserve and promote established neighborhoods; and 3) ensure the availability of quality and affordable housing across the City.

The City of Saint Paul adopted the White Bear Avenue Small Area Plan and City Housing Plan as part of the St. Paul Comprehensive Plan. Some of the key objectives identified are:

Strategy 2 - Neighborhoods as Urban Villages

5.0 Meet new market demand:

5.1 Urban Village,

5.2 Mixed Land Use,

5.3 Range of Housing Types & Values,

5.4 Market for New Housing and

5.5 Coordinated Land Use/Transportation.

Strategy 3 - Corridors for Growth

6.8 - Neighborhood Bus Corridors.

Recommendation:

The Executive Director recommends fully satisfying the forgivable loan in accordance with the attached resolution.

Sponsored by: Commissioner Bostrom

Staff: Sheri Pemberton-Hoiby (651-266-6615)

Attachments:

- **Attachment A -- Resolution**
- **Attachment B-- Map/Address of Project and Photos**
- **Attachment C – Project Summary**
- **Attachment D – Sources and Uses**
- **Attachment E -- Public Purpose Form**
- **Attachment F -- Census Facts**