

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

REPORT TO THE COMMISSIONERS

DATE: DECEMBER 14, 2011

REGARDING: AUTHORIZATION TO ENTER INTO A THIRD AMENDMENT TO DEFER LOAN REPAYMENT ON AN EXISTING HRA LOAN TO D AND N, INC. DBA MAI VILLAGE RESTAURANT LOCATED AT 394 UNIVERSITY AVENUE (UNIVERSITY AND WESTERN), DISTRICT 8

Requested Board Action

Approve and authorize execution of a third loan amendment which will defer, but not forgive, repayment of an existing HRA loan to D & N, Inc. dba Mai Village Restaurant for the period from April 2011 through June 2015.

Background

In April 2003, the HRA, along with Western Bank and the US Small Business Administration (SBA), provided financing to D & N, Inc. to acquire and construct the Mai Village Restaurant at 394 University Avenue (University and Western). The HRA loan was in the amount of \$400,000. The promissory note terms included a two year deferral of repayment to May 2005 and also allowed the HRA to extend deferrals up to an additional three years to May 2008 which was done. A First Amendment to the loan deferred, but did not forgive, repayment from May 2008 to December 2008 with payments scheduled to begin January 2009. Payments were made for January 2009 through March 2010. The HRA on March 24, 2010 approved a Second Amendment which deferred, but did not forgive, repayment from April 2010 through March 2011.

The Credit Committee in February 2010 approved a) a one year deferral, but not forgiveness, of repayment (the Second Amendment) and b) changed the Risk Rating from Doubtful to Evolved to Loss.

The Second Amendment was part of a 2010 work out plan for the borrower which was in response to the bank initiating foreclosure. As part of the workout plan, the bank agreed to stop foreclosure proceedings.

However, even though D and N, Inc. has lowered operating costs as its part of the workout plan, sales have not reached levels sufficient to repay debt and the borrower has not been able to make payments on the HRA debt. D & N has been past due with HRA payments and has not made the HRA payments which were scheduled to begin in April 2011.

Sales required to break-even are \$1.8 million given the historical operating costs, debt service, and tax obligations. Although some operating cost improvements were made in 2009-2010, sales were approximately \$1, 000,000 and the restaurant continued to lose money and was not able to service all debts.

Current payoff balance of HRA loan as of November 28, 2011 is \$491,116

| | | |
|-----------------|-------------------|---------------|
| Current balance | Principal | \$374,199 |
| | Interest | 24,739 |
| | Deferred interest | <u>92,178</u> |
| | Payoff balance | 491,116 |

Budget Action

N/A There are no new funds involved.

Future Action

Monitor situation.

Financing Structure

| | Original | December 2010 Estimated debt balances |
|--------|----------------|---------------------------------------|
| *WSB | \$1,856,000 | 1,828,075 |
| SBA | 751,000 | 784,340 |
| HRA | 400,000 | 491,116 |
| Equity | <u>595,000</u> | <u>N/A</u> |
| Total | 3,602,000 | 3,103,531 |

PED Credit Committee Review

On November 7, 2011, the Credit Committee approved a deferral, but not forgiveness, of repayment from April 2011 through June 2015. It was determined that this project would not begin to recover its sales levels until at least a year after light rail construction was completed.

Compliance

N/A The project was completed in 2003.

Green/Sustainable Development

N/A The project was completed in 2003.

Environmental Impact Disclosure

N/A The project was completed in 2003.

Historic Preservation

N/A The project was completed in 2003.

Public Purpose

N/A The project was completed in 2003.

Recommendation:

The Executive Director recommends approval of the resolution approving and authorizing the deferral of repayment from April 2011 through June 2015 of the HRA loan to D & N, Inc.

Sponsored by: Commissioner Carter

Staff: Craig O'Brien 266-6695

- **Attachment A -- Resolution**
- **Attachment B-- Map/Address of Project**