

**Date:** May 9, 2016  
**To:** Credit Committee  
**From:** Hilary Holmes  
**Re:** Old Swedish Bank/East Side Neighborhood Development Company, Inc.  
(ESNDC) – 961-963-965 Payne Avenue

### **REPORT SYNOPSIS/PROJECT**

Old Swedish Bank, LLC (the “Developer”) owns the Old Swedish Bank building property located at 961 Payne Avenue (the “Property”). The Developer is working with Sunrise Bank to refinance and pay off junior debt. The Developer intends to use the mortgage proceeds from the refinance for needed capital improvements to the building. The Developer is requesting the following:

1. Subordination of Old Swedish Bank, LLC CDBG loan to a refinanced loan from Sunrise Bank.
2. Resubordination of Old Swedish Bank, LLC STAR loan to a refinanced loan from Sunrise Bank.

### **BUSINESS PROFILE/COMPANY**

The Property is located at 961 Payne Avenue. East Side Neighborhood Development Company, Inc. is a non-profit corporation that transferred the Property to Old Swedish Bank, LLC in 2001. The Old Swedish Bank Building is a commercial office building with four tenants, one of which is ESNDC. The building is currently fully leased.

### **LOAN PROFILE**

In 2001 ESNDC received \$30,000.00 in STAR funds along with a \$300,000.00 Met Council LCDA grant for rehabilitation of the property. In 2007 ESNDC received \$230,000.00 in CDBG funds for the rehabilitation of the property.

The \$30,000.00 STAR loan has an interest rate of 2%. Payments of principal and interest were deferred from May 2007 until May 1, 2012. Interest only payments began on June 1, 2012. Principal and interest payments are set to begin June 1, 2017. The principal and all accrued interest of the loan amount shall be due and payable on May 1, 2022. The STAR loan current balance is \$30,000.00 as of May 1, 2016.

The \$230,000.00 CDBG loan has an interest rate of 2%. Payments of principal and interest were deferred from May 2007 until May 1, 2012. Interest only payments began on June 1, 2012. Principal and interest payments are set to begin June 1, 2017. The principal and all accrued interest of the loan amount shall be due and payable on May 1, 2022. The CDBG loan current balance is \$230,000.00 as of May 1, 2016.

Sunrise Bank has offered Old Swedish Bank, LLC a loan to pay off the remaining NDC, ESNDC and Historic Saint Paul junior debts.

Total Existing Secured Debt:

	Original Amount	Pay-off YE 2016*
1 <sup>st</sup> Mortgage:		
HRA Loan	\$ 230,000.00	\$ 230,000.00
2 <sup>nd</sup> Mortgage		
NDC Loan	\$ 175,000.00	\$ 159,249.00
3 <sup>rd</sup> Mortgage		
STAR Loan	\$ 30,000.00	\$ 30,000.00
4 <sup>th</sup> Mortgage		
Historic Saint Paul	\$ 15,000.00	<u>\$ 15,000.00</u>

Unsecured debt (not recorded with County):

	Original Amount	Pay-off YE 2016*
ESNDC Commercial Loan	\$ 40,000.00	\$ 34,373.00

**Total Existing Debt**

**\$ 434,249.00**

Proposed Secured Debt

	Original Amount
1 <sup>st</sup> Mortgage	
Sunrise Bank Loan	\$ 205,000.00
2 <sup>nd</sup> Mortgage	
CDBG Loan	\$ 230,000.00
3 <sup>rd</sup> Mortgage	
STAR Loan	\$ 30,000.00

\*Pay-off subject to change as it's based on the accrued interest on the closing date.

**INCOME REPAYMENT**

The proforma indicates that the ESNDC business operations would provide adequate cash flow to amortize the repayment of all the debt that will occur. The proforma assumes retention of existing tenants in order to generate the cash flow needed to pay off OSB's debts. The following cash flow table shows repayment ability based on the proforma:

	<b>2015</b>	<b>Proposed</b>
Cash from Rents	\$ 150,577	\$ 150,577
- Vacancy (5%)	(7,529)	(7,529)
= Effective Gross Income (EGI)	\$ 143,048	\$ 143,048
- Expenses	(75,990)	(75,990)
- Annual Real Estate Taxes	(27,494)	(27,494)
- Replacement Reserves	<u>(0)</u>	<u>(0)</u>
= Net Operating Income (NOI)	39,564	39,564
- Annual Debt Service	<u>(22,921)</u>	<u>(32,987)</u>
= Net Cash Flow	\$ 16,643	\$ 6,577

The loan repayment is based on cash flow available for debt service. Unpaid loan balance and accrued interest on the CDBG and STAR loans will balloon in 2022.

In 2015, the EGI from the building was \$143,048; projected expenses were \$75,990 resulting in a NOI of \$39,564. The annual debt service is \$16,643. Therefore, the current debt coverage ratio is 1.73:1.

In the proposed scenario, the projected EGI from the building remains \$143,048; projected expenses would remain \$75,990 resulting in a NOI of \$39,564. The annual debt service would be \$32,987. Therefore, the debt coverage ratio would be 1.19:1.

The property is currently valued at \$621,500 by Ramsey County. This provides a loan-to-value ratio of 0.42.

### **COLLATERAL AND CONDITIONS**

1. CDBG Real Estate Mortgages on the Property – 961 Payne Avenue
2. CDBG Promissory Note
3. Collateral Assignment of Rents and Leases
4. STAR Real Estate Mortgages on the Property – 961 Payne Avenue
5. STAR Promissory Note
6. Master Subordination Agreement

### **PUBLIC PURPOSE**

This project aims to improve the building's physical condition and visual appearance, for continued commercial use as office suites. The property will continue to remain on the property tax rolls.

### **RISK RATING**

The CDBG and STAR loans are risk rated as DOUBTFUL.

### **FEES**

There will be a \$1,150.00 fee on the subordination of the \$230,000.00 CDBG loan and a \$200.00 fee on resubordination of the \$30,000.00 STAR loan.

### **RECOMMENDATION**

Staff recommends that the Credit Committee approve of the following:

1. Subordination of the \$230,000.00 CDBG loan and the \$30,000.00 STAR loan to a new loan in the amount of the remaining NDC loan, the Historic Saint Paul loan, and the remaining ESNDC loan.
2. This approval is subject to ESNDC's mortgage proceeds being reinvested into needed capital improvements to the building.