

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

REPORT TO THE COMMISSIONERS

DATE: January 22, 2014

REGARDING: Resolution Approving and Authorizing Execution of a Workout Agreement for a Loan Made to 4DJ, LLC, For Property located at 281-285 N. Snelling, Ward 4, District 13

Requested Board Action

The specific actions being requested of the HRA Board are as follows:

- 1) Accept \$52,500 from the Borrower as payment in full for the HRA Loan and releasing all HRA collateral; and
- 2) Add the Borrower to the Workout List

Background

In June 2003, the HRA provided a \$200,000 (6.5%, 20 years) loan to 4DJ, LLC (Borrower) to acquire, renovate and install a new gas pumping operation and car wash at 281-285 N Snelling. The HRA loan balance is now approximately \$211,000. The total project cost was \$3,045,000. The HRA mortgage is in 3rd position; subordinate to the Bank and the SBA. Below are the original sources of funds:

Liberty Bank (Associated)	\$1,550,000
Small Bus. Admin (SBA)	1,000,000
HRA	200,000
Equity	<u>295,000</u>
Total	\$3,045,000

In the spring 2009, the Borrower informed all lenders that they would no longer be able to make loan payments. The PED Credit Committee took action to downgrade the risk rating on the loan from Doubtful to Loss.

Since 2009, PED staff has monitored the project in the event the Bank decided to foreclose or take any action against the Borrower. The Borrower did not pay property taxes. When the property was about to go tax forfeit in the second half of 2011, the bank paid the property taxes (which remain current), and went to court to appoint a receiver to manage the property.

The Bank filed a lawsuit against 4DJ, LLC and its guarantors, and a settlement proposal has been offered to the Bank, the SBA and the HRA in order to avoid a foreclosure. The proposal involves a third party purchasing the Bank Note at a discount from Associated Bank; in return, the Bank will assign it's mortgage to the third party. The Borrower has indicated that the SBA will also agree to a discount pay off to release the members of 4DJ from liability under its Note and mortgage. The Borrower originally offered the HRA \$26,000; staff counter offered at \$52,500, which has now been accepted by Borrower.

4DJ, LLC made loan repayments as scheduled from 2003 to mid-2009 in the following amounts:

Interest	\$ 69,383
Principal	\$ 32,252
Late Fees	<u>\$ 2,759</u>
Total payments	\$104,394

With the received payments of \$104,394 plus the workout offer of \$52,500 the total funds received equal \$156,894.

Budget Action

N/A

Future Action

N/A

Financing Structure

N/A

PED Credit Committee Review

The Credit Committee recommended that the workout offer be accepted as payment in full of HRA's loan; in addition, the Credit Committee recommended that the Borrower and guarantors be added to the Workout List.

Compliance

N/A

Green/Sustainable Development

N/A

Environmental Impact Disclosure

N/A

Historic Preservation

N/A

Public Purpose/Comprehensive Plan Conformance

N/A

Recommendation:

The Executive Director recommends approval of the resolution approving the acceptance of \$52,500 from 4DJ, LLC and guarantors as a workout payment in full for the HRA Loan and releasing all HRA collateral; and adding the Borrower and guarantors to the Workout List

Sponsored by: Commissioner Stark

Staff: Craig O'Brien 266-6695

Attachment A –Resolution

Attachment B -Map