

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

**REPORT TO THE COMMISSIONERS**

**DATE: June 8, 2016**

**REGARDING: RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A SECOND AMENDMENT TO AN EXISTING HRA LOAN INCLUDING EXTENSION OF TERM AND AFFORDABILITY PERIOD, AND RESUBORDINATION FOR VAN DYKE TOWNHOMES, DISTRICT 1, WARD 7.**

## **Requested Board Action**

The purpose of this report is to request the Housing and Redevelopment Authority (HRA) Board of Commissioners approve the attached resolution authorizing the following:

1. Execution of the Second Amendment to the HRA Loan including the extension of the maturity date and affordability period; and
2. Resubordination of the HRA Loan to a new first mortgage loan.

## **Background**

The Van Dyke Townhomes Project includes ten 3-bedroom townhomes and one 4-bedroom home (the “Project”). Van Dyke Townhomes, LLC is the developer/owner (Owner). The HRA holds a promissory note in the original principal amount of \$279,000 secured by mortgage dated February 1, 1990 (HRA Loan). On July 27, 2005, the HRA approved a first amendment refinancing and resubordinating the HRA Loan for an additional 15 years until August 2020 in exchange for the extension of the affordability restrictions. The First Amendment also required the Owner to make annual loan payments equal to half of the pre-tax cash flow to the interest and then to the principal, and for \$100,000 be spent on capital improvements to the Project.

As of May 23, 2016, the HRA Loan balance totaled \$427,940, including principal and interest. The HRA Loan is not current, but the Owner has agreed to bring the loan current prior to the extension of terms and resubordinating by submitting a payment of \$118,929. Additionally, the Owner will submit payments equal to half of the pre-tax cash flow annually on September 1<sup>st</sup> as described in the First Amendment.

The unit size and current rent ranges are currently at or below 60% of the Area Median Income:

<b><u>Unit Type</u></b>	<b><u>Unit Mix</u></b>	<b><u>Gross Rent</u></b>
3-BR Affordable	10	\$1,075 - \$1,250
4-BR Affordable	1	\$1,375

Affordable family-sized rentals provide substantial benefit to Saint Paul, and as a result of the approval of the Second Amendment and Subordination, the unit rents will be preserved at or below 60% Area Median Income until 2046. The Owner will not be permitted to convert the units to market rate, even if the HRA Loan is paid off prior to the year 2046.

**Budget Action:** N/A

**Future Action:** N/A

### **Financing Structure**

#### ***Proposed Debt***

<b>Source</b>	<b>Position</b>	<b>Original Principal Balance</b>	<b>Rate</b>	<b>Current Principal + Interest Balance</b>	<b>Total Balance After Refinance</b>	<b>New Term</b>
Minnwest	New 1 <sup>st</sup> Mortgage	N/A	3.89% annual, 3 years fixed	N/A	\$461,000	20 yr amortiz. w/ balloon payment
HRA	2 <sup>nd</sup>	\$279,000	2% annual	\$427,940	\$309,011	30 yrs w/ afford. restrictions
Anchor Bank	3 <sup>rd</sup>	\$300,000	3% annual	\$206,000	\$150,000	N/A
<b>Total</b>					<b>\$920,011</b>	

The Owner will refinance the Project with a new Minnwest first mortgage loan in the amount of the original principal balance of \$461,000. The Owner's lender has agreed to release cash reserve from another project to make the HRA Loan current, and the Owner will also be paying \$56,000 of the Anchor Bank loan, which will remain subordinate to the HRA Loan. Additionally, the Owner proposes an extension to the term of the HRA Loan to 2046. After the refinance, cash flow payment to the HRA, and payment to Anchor Bank, total debt will be approximately \$920,011, as seen in the above table.

Because the new first mortgage financing cannot cover repayment of all existing debt, the Owner is requesting the Subordination and execution of the Second Amendment in exchange for bringing the HRA Loan current by submitting a payment of \$118,929, extending the affordability period in accordance with the HRA Loan term extension until the year 2046, and making identified capital improvements to the Project. Currently, the HRA Loan term and affordability restrictions expire in 2020, or in four years.

### **PED Credit Committee Review**

On May 16, 2016, the PED Credit Committee reviewed and approved the Subordination request and the execution of the Second Amendment extending until the year 2046 at 2% interest, and annual payments equal to 50% pre-tax cash flow, provided the Owner comply with the following:

1. Before closing, the Owner must bring his HRA Loan current by submitting a payment equal to half of the pretax cash flow from 2008 through 2014, or \$118,929.
2. The Owner must also extend the affordability period through 2046 by means of a Declaration and work with Affordable Housing Connections for compliance tracking.
3. A commitment to complete \$35,000 in capital improvements to the Project within the next year.

The HRA Loan was risk rated (O) Originated as a Loss.

### **Compliance**

N/A

### **Green/Sustainable Development**

N/A

### **Environmental Impact Disclosure**

N/A

**Public Purpose/Comprehensive Plan Conformance**

The Project meets the public purpose objective from the Housing Affordability Policy and Plan to maintain a variety of housing options to a mix of incomes. It will extend the affordability period on 11 family-sized, rental housing units for households at or below 60% Area Median Income.

**Recommendation:**

The Executive Director recommends and requests the HRA Board of Commissioners to consider adoption of the attached resolution which approves the following for the Van Dyke Townhomes Project:

1. The execution of the Second Amendment to the HRA Loan including the extension of the maturity date and the execution of applicable documents extending the affordability period for the same term; and
2. Resubordination of the HRA Loan to a new first mortgage loan subsequent to the Owner bringing the HRA Loan current and with the condition capital improvements be made.

**Sponsored by:** Commissioner Jane Prince

**Staff:** Ashley Foell, 651-266-6553

**Attachments**

- **Attachment – Map**
- **Attachment – Public Purpose**
- **Attachment – District 1 Profile**