JLPope
ASSOCIATES

April 30, 2004

Mr. Jerry LePage
Ms. Cynthia Lee
Community Planning and Economic Development
Crown Roller Mill, Ste 200 105 Fifth Ave South
Minneapolis, MN 55401-2534

Re: Morrison Village restructuring

Dear Jerry,

As a follow-up to our recent discussions about restructuring and resyndicating Morrison Village Apartments, I am writing on behalf of Community Housing Development Corporation ("CHDC") to request the restructuring of debt incurred by Jack Frost Flats Limited Partnership from Minneapolis Community Planning and Economic Development and the City of Minneapolis. CHDC, or its affiliate, is acquiring National Equity Fund's ("NEF") interest in Jack Frost Flats Limited Partnership and will hold the property for a minimum of thirty days. We expect that transaction to occur within the next week. The property will then be sold to CHDC Morrison Limited Partnership and rehabilitated using syndication proceeds.

NEF has approved this transfer. We are in the process of executing the appropriate documents with them. Due to the capital needs of the project, the partnership is not providing any funds to cover NEF exit taxes.

Morrison Village has substantial capital needs and an operating budget that depends on keeping vacancies low and maintenance expenses at a minimum. To accomplish approximately $2 million in improvements, CHDC applied for and received $308,237 in Low Income Housing Tax Credits through the Minnesota Housing Finance Agency, which translates into approximately $2,309,466 in equity. To cover some soft costs not allowed from syndication funds, CHDC applied for and was granted $180,543 in an Affordable Housing Trust Fund loan.

CHDC Morrison Limited Partnership ("CHDC Morrison") has been formed. Wells Fargo will purchase the limited partner share if the financing on the property can be restructured. Therefore, that is CHDC's task while the property is held by CHDC, or its affiliate. We hope the financial restructuring can be accomplished in the period from approximately mid-May to mid-June, with sale to CHDC Morrison LP by July 1. CHDC will enter into a purchase agreement with CHDC Morrison detailing the terms under which the new partnership will purchase the property.

Towards this end, CHDC is requesting that the property's first mortgage from MHFA be restructured so that the balloon payment is removed and the term extended to the full thirty years, through January 1, 2032. This will assist in making the Project feasible for the new fifteen-year tax credit compliance period.

We have also been discussing debt restructuring with you and other members of the CPED staff. **We are proposing to pay off all existing debt owed to various sources through CPED and obtain a <u>new loan from CPED in the amount of $2,813,515 due in 30 years at 0% interest</u>**.

The existing MCDA mortgage loans are:

$1.4 million from February 1988 with interest accruing at 4.5% until Feb 2003 and interest reduced to 0% from February 2003 until February 2018 maturity. The accrued interest as of July 1, 2004 will be $897,386.

CDBG - $375,000 from September of 2000 with 1% accrued interest of approximately $11,000 and a September 2030 maturity date. Accrued interest on this loan as if July 1, 2004 will be $12,546.

HOME - $180,515 from 1994 with 1% accrued interest of approximately $16,000 and a May 2024 maturity date. Accrued interest on this loan as of July 1, 2004 will be $17,148.

These loans cannot remain on the project as they would have negative implications for the new Affordable Housing Tax Credits. The additional mortgage from CPED along with the financing secured through other sources will provide sufficient funds to pay off these existing mortgages and their accrued interest at closing.

In addition to the restructure of the MCDA loans, CHDC is also proposing that the term of the City of Minneapolis HoDAG of $850,000 be extended until 2024. The Minneapolis HUD Field Office is processing this request and will report to CPED with final approval.

We believe that the above scenario presents a realistic long-term solution for the City of Minneapolis, CHDC, Morrison Village Apartments and our syndicators. The proceeds from syndication will provide a needed boost to this property.

Additionally, preventing further unrealistic debt from accruing will help us keep this property affordable. This is particularly important because CHDC has been renting units to families with incomes at or below 50% Area Median Income (AMI) with rents affordable at this level. Currently, all rents are affordable to families at or below 45% AMI and project financing documents stipulate that CHDC will not raise rents more than 1% over annual operating expense increases.

As we have discussed, the HoDAG documents require project rents to remain at or below 50% AMI. And, the Low Income Housing Tax Credit Program requires that all resident incomes at move-in will be at or below at 60% AMI. However, in addition, CHDC will commit to keeping a minimum of 17 units at Morrison Village designated for families at 50% Area Median Income (AMI) and rents affordable at this level for the term of the new financing proposed herein. The remaining 40 units will have rents affordable at 50% AMI and will be rented to families at or below 60% AMI.

Jerry, thank you very much for your review of this information and for taking this request to the Committee and the City Council. Please do not hesitate to contact me with any questions or a request for further information.

Sincerely,

Rachel Robinson

C: Dick Brustad
    Angela Christy
    Janet Pope

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