Request for City Council Committee Action from the Department of Community Planning & Economic Development

Date: November 29, 2011

To: Council Member Lisa Goodman, Community Development Committee

Subject: Chicago Avenue Apartments: City Debt Transfer, Extension, and Re-subordination

Recommendation: Approve the transfer of two existing City loans to Chicago Avenue Apartments, extend the maturity dates of the loans to match new HUD financing, reduce the interest rate of one loan going forward, and re-subordinate to other lenders as described within the report.

Previous Directives: On August 6, 2004 the City Council approved an extension on the $1,393,000 loan to 2022, and reduced the interest rate to 1% going forward. The MCDA authorized the $1,393,000 loan in 1981, and the $300,000 loan in 1995.

Department Information

Prepared by: Amy Geisler, Senior Project Coordinator – Multifamily Housing
Approved by: Charles T. Lutz, Deputy Director, CPED __________
Thomas A. Streitz, Director, Housing Policy & Development __________

Presenters in Committee: Amy Geisler, Senior Project Coordinator (673-5266)

Financial Impact

- Action is within the Business Plan
- Financial Impact: Delays repayment of principal and interest payments on both loans: $300,000 CDBG loan extended from 2025 to 2041, with no change to interest rate; $1,393,000 CDBG loan extended from 2022 to 2041, with a reduction in interest rate from 10% to 1% going forward. No recommended forgiveness of interest or principal.

Community Impact

- Neighborhood Notification: NA
- City Goals: A Safe Place to Call Home; Livable Communities, Healthy Lives
- Comprehensive Plan: 3.3.2: Utilize city housing resources and partnerships to preserve the affordability of existing affordable housing. 3.3.4: Support policies and programs that create long-term and perpetually affordable housing units.

Background

Chicago Avenue Apartments is a 3-building, 60-unit project-based Section 8 rental project located in the Elliot Park neighborhood. The project is owned by Chicago Avenue Partners, of which Aeon is the managing general partner. Aeon stepped into this role in 1995. In past years, the MCDA provided two deferred loans to the project: $1,393,000 at 10% simple interest in 1981, and $300,000 at 1% simple interest in 1995. The property is located at 1500-1508 Chicago Avenue.

Aeon is now working with HUD to refinance the project through HUD's Mark-to-Market program. The project currently has a Housing Assistance Payments (HAP) contract with HUD that provides rental subsidy. A recent market study determined that the existing HAP contract rents exceed the market rents, which enables the project to enter the Mark-to-Market program. HUD will refinance with a new first mortgage that effectively reduces the existing debt on the project, while also allowing HAP contract rents to rise to 120% of permitted Section 8 rents. Both the refinancing and the increased rents will provide additional cash flow to address immediate rehab needs, and provide additional reserves over the next 20 years. HUD is also providing a new second mortgage to the project, in addition to extending the HAP contract for the 20-year term of the new loans.

To participate in the Mark-to-Market program, all existing subordinate loans must either be repaid or extended and re-subordinated to the new HUD loans. In addition to the City, MHFA, the Family Housing Fund, and TCF Bank/Federal Home Loan Bank also have existing deferred loans, as described in the table below.

Table 1 – Existing loans before restructure

Existing loans	Original Principal Amount	Current Interest Rate	Position
MHFA 1st mortgage	$1,167,334	7.45%	1st
MHFA deferred loan	100,000	0%	2nd
MHFA deferred loan	300,000	0%	3rd
MCDA deferred loan (due 2025)	300,000	1.0%	4th
Family Housing Fund deferred loan	117,960	2.0%	5th
TCF Bank/Federal Home Loan Bank	200,000	8.0%	6th
MCDA deferred loan (due 2022)	1,393,000	10%	7th

Table 2 – Proposed loans after restructure

Proposed loans – extended to 2041	New Principal Amount	Proposed Interest Rate	Position	Status
HUD 1st mortgage	1,167,300	4.5%	1st	Committed
HUD 2nd mortgage	760,371	4.0%	2nd	Committed
MHFA deferred loan	100,000	0%	3rd	Committed
MHFA deferred loan	300,000	0%	4th	Committed
MCDA deferred loan	300,000	1%	5th	Pending Restructure
Family Housing Fund deferred loan (remainder)	24,454	0%	6th	Pending Restructure
TCF Bank/Federal Home Loan Bank	0	--	--	Forgiven
MCDA deferred loan	1,393,000	1%	7th	Pending Restructure

Status of Loans from Other Lenders

The new HUD first mortgage will replace the existing MHFA first mortgage. In addition, MHFA has already approved the extension and resubordination of their existing deferred loans. The Family Housing Fund will be repaid some of their loan balance, with a portion remaining as deferred debt on the project. TCF/FHLB have agreed to forgive their loan to the project. The City is the last lender to take action on the existing debt.

Existing City Loans – both sourced by CDBG	City Loan 1	City Loan 2
Original principal amount	1,393,000	300,000
Original interest rate	10.0%	1.0%
Origination date	9/25/1981 3/22/2005 4/14/2006	4/18/1995
Maturity date	12/2/2022	6/28/2025
Interest accrued	4,179,000	49,250
Current face value	5,572,000	349,250

Aeon's Request to the City

Aeon has requested the following actions related to the City's two existing deferred loans:

1. Consent to the sale of property by Chicago Avenue Partners to Chicago Apartments LLC, a new single-purpose entity owned by Aeon
2. Consent to the assumption by Chicago Apartments LLC of the obligations under both notes payable and related loan documents.
3. Extend the maturity dates of both notes payable to meet HUD requirements that they mature on or soon after the maturity date of the new first mortgage (in 2041).
4. Re-subordinate both notes payable to the new HUD-insured first mortgage, the new HUD second mortgage, and to the existing debt/encumbrances in the current order of priority
5. Reduce the interest rate on the $1,393,000 note payable from 10% to 1%, effective on the note's origination date (retroactively).

In 2004, Aeon received City Council approval to lower the interest rate on the $1,393,000 loan from 10% to 1%, going forward from Council approval, and the note was amended accordingly. Subsequent to Council approval, Aeon determined that the interest rate reduction would have significant negative tax implications to the existing project partners, and requested that the City amend the note again, resurrecting the original 10% interest rate. Because of the change in ownership entity that is accompanying the HUD refinancing, the reduction in interest rate no longer results in negative tax consequences to the project.

Staff Recommendation

In response to Aeon's request, staff recommends approval of the property sale and consent to the assumption of the existing CPED loans. Staff also recommends extending and re-subordinating both CPED loans to the new HUD financing. Facilitating the HUD refinance and its associated rehabilitation work will help stabilize the property and maintain affordability over the term of the new HUD loan, all without any additional funds from the City. Staff is also recommending that the interest rate on the $1,393,000 note be reduced from 10% to 1% going forward, i.e. effective as of the issue date of the amended note.

Attachments

Project data worksheet