

Great Streets Real Estate Development Gap Financing  
Proposed Loan Origination fee and Underwriting Guidelines  
Neighborhood Notification: Language and Schedule

Overview:

The City of Minneapolis is considering two administrative changes to the Great Streets Real Estate Development Gap Financing Program. City Council will consider 1.) imposing a one percent loan origination fee and 2.) adopting underwriting guidelines.

1.) Loan Origination Fee: CPED will recommend to the City Council implementing a 1% loan origination fee for all Great Streets Real Estate Development Gap Financing loans. These loans provide funding for catalytic commercial projects where investment will likely spur additional development. Projects must be located in areas designated as Great Streets eligible areas: commercial corridors, commercial nodes, activity centers and LRT station areas designated in *The Minneapolis Plan for Sustainable Growth*. Projects have one or more public benefits including job creation, blight removal, tax base enhancement, etc. The typical loan size is \$150,000 - \$450,000.

Funds collected will be used to support program delivery and offset the administrative costs of reviewing applications, loan underwriting, processing and monitoring loans. Pursuant to state law, this fee can be demonstrated to not exceed the actual staff administrative costs. A 1% origination fee is standard for loans of this type. The fee will be collected at closing.

2.) Underwriting Guidelines: CPED staff will recommend to the City Council adopting underwriting criteria for Great Streets Real Estate Development Gap Financing loans. The goal of the underwriting criteria is to clarify decision making criteria for potential borrowers and comply with federal regulations related to Community Development Block Grant funding, as applicable. The following are the proposed underwriting guidelines:

- 1) The project meets the programmatic goals of the Great Streets program.  
The Great Streets real estate development gap financing program supports commercial real estate development projects that are believed to be catalytic and there are public benefits such as blight removal, tax base enhancement, job creation etc. The public benefit will be commensurate with the public investment.
- 2) Project costs are reasonable.  
Applicants are required to submit project cost estimates. City staff reviews project plans and costs for reasonableness, including land acquisition costs. Particular attention will be paid to non arms length transactions, for example, when the borrower procures goods or services from itself or from another party with whom there is a financial interest or family relationship.
- 3) Sources of the project financing are committed.

City funds will be committed only after evidence that there is at least preliminary commitment of all other sources of funds required to complete the project. All funds must be committed and available at the time of the loan closing.

- 4) To the extent possible, City funds are not substituted for non-public financial support.

Great Streets real estate development gap financing loans are intended to fill a financing gap and meet the "but for" test. The borrower is expected to maximize all other debt and equity sources and borrow City funds to close the financing gap.

- 5) The project is financially feasible.

Projects are reviewed and assessed for financial feasibility by Project Coordinators, Development Finance staff, the Development Finance Committee (loans >\$200,000), and approved by the City Council.

Assessment of financial feasibility and ability to repay the loan includes an assessment of:

- financial assumptions with regard to projected rental rates, absorption rate, and occupancy within the context of the specific geographic/market areas
- the appropriateness of the debt coverage
- the size of the loan relative to other financing sources
- the appropriateness of the collateral and security

- 6) To the extent possible, the return on the owner's equity investment will not be unreasonably high.

Staff will assess the return on equity for reasonableness and will consider factors such as risk of the project, local conditions, and industry standards.

- 7) To the extent practicable, City funds are disbursed on a pro rata basis with other finances provided to the project.

To minimize the degree to which City funds are placed at greater risk than non-City funds with respect to project completion, City funds, to the extent possible, will be disbursed on a pro rata basis.

Schedule:

Issue Notice: September 27, 2010

Comment will be accepted until: November 5, 2010

CD Committee: November 30, 2010

City Council: December 10, 2010

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