

MINUTES
LOAN ADMINISTRATION BOARD MEETING
JULY 16, 2010

Pursuant to public notice, a rescheduled meeting of the Escanaba Loan Administration Board was held on Friday, July 16, 2010, at 8:00 a.m. at City Hall, Room C102, 410 Ludington Street, Escanaba, MI.

Board Members Present: Chairperson Tim Kobasic, Boardmembers Roni Beaudoin, Jeanine Dagenais and Chris Economos

Also Present: City Treasurer Robert Valentine, Council Liaison Brady Nelson, City Attorney Russ Hall, Executive Secretary Kim Peterson, and First Bank Senior Vice President Mark Lektzian

Chairperson Tim Kobasic called the meeting to order at 8:03 a.m.

Approval of Minutes from May 6, 2010

A motion was made by Boardmember Economos, seconded by Boardmember Beaudoin, to accept the meeting minutes from May 6, 2010.

Motion was approved unanimously.

NEW BUSINESS

Modification of terms to Lofts on Ludington Loan

Treasurer Valentine stated as the Lofts on Ludington project moves closer to being able to get started and get funded, the purpose of this meeting is to bring the Board together and simply reaffirm the loan. The terms and condition have changed significantly to what was originally approved. When the project previously went before the Board, they contemplated the historic tax credits only and since that time Matt Sviland has uncovered opportunity for other types of tax credits which made significant changes to the organizational structure. The package that was distributed to the Board contains a chart that shows the new organizational structure of the project. There is now in excess of half dozen paper entities involved in the transaction of the project to make it work with the market of the new tax credits. Matt Sviland has engaged services of attorneys and consultants who specialize in tax credits and they are the ones that put the structure together. This is necessary in order to take advantage of the said tax credits out there.

Mark Lektzian from First Bank is taking the lead in putting this deal together and coordinating the financing. Mr. Lektzian stated someone has offered to purchase all of the tax credits. First Bank requested additional equity be put into the project and with the new market tax credit, this will bring in approximately \$960,000 into the project. To do this, there had to be some structural changes. The new market tax credits, state, federal and Brownfield credits will be purchased by one single entity which will bring money into the project immediately. First Bank had anticipated at some point in time there would be lines of credit whereas construction progresses, money would be withdrawn. The difference is that all sources of funding will be tied into one big account with funds coming in from MSHDA grant with the City of Escanaba administering it,

Escanaba Downtown Development Authority façade grant, state and federal historic tax credit which are \$10,000 each at the start of the project. Looking at a \$3.7 million project which will be in a pool of funds at the beginning of the project and this will take care of the construction. The Bank's responsibility will be to manage the construction of the project and will follow the process for any other commercial construction project where they will also require sworn statements from the contractor, certification from the architect, draw requests from the owner. After the first draw, anyone who has been paid from previous construction draws will have to provide the Bank with signed waivers. Total amount of the project is shown at \$4.5 million.

Treasurer Valentine stated in order for Lofts on Ludington to qualify for the new market tax credits, the project has to be shown at \$5 million. They have double counted some of the money from a couple of the sources to reach that amount to qualify the project which is legal to do so under the rules. There is also a significant change in terms that is required under the new market tax credit structure. Initially what was approved was a fifteen year amortization at prime with 3 year interest rate adjustments intervals. The new market tax credit structure with the investors that are in place, in order to secure those tax credits (seven year tax credits) both lenders are required to enter into a forbearance agreement. The forbearance agreement stipulates that for seven years neither lender can take any action to realize the assets that are secure in the loan regardless of default or no matter happens for seven years. This protects the tax credit investors so they are guarantee to get those tax credits for seven years. What would happen in the event of a default within the seven year period is that those funds would have to be redeployed to another tax credit eligible project. The City has been assured that those projects are available and that this can happen. State Bank was originally identified as the participating bank, but currently is First Bank. Because of the new tax credits that have entered into the project, the Bank term loan at the end of construction is actually going to be smaller than originally presented to the Board. Originally presented was approximately \$650,000 term loan to the Bank ahead of the City of Escanaba. Now because of the new market tax credits, the Bank term loan will be approximately \$209,000 - \$300,000. Security interest for the City of Escanaba has improved.

Discussed the max subordination amount being \$300,000.

Chairperson Kobasic questioned the long-term impact on the loan. Treasurer Valentine stated the long-term impact on the loan is the City has a better position on it and is better secured. The Board has to deal with some new terms in place because the original terms approved by the Board cannot be implemented under the tax credit structure. During the period of the seven year forbearance, interest can only be made with no principal reduction on the loan. The City has to come with a mechanism to deal with the principal reduction after year seven. At year seven, the loan balance is still going to be \$525,000 (the second loan approved for \$225,000 and the current \$300,000). The City is recommending the two loans be rolled in and merged and the City do one loan for \$525,000 and move forward as the terms are being reset. Originally it was contemplated the City have first lien on the parcel of property which was Auto Value because the City was the only ones advancing funds toward the purchase of the property. The parcel has subsequently been rolled into the other parcel for purposes of Brownfield qualification and there is no longer a parcel left for the City to have first lien on. Matt Sviland purchased the Auto Value parcel on land contract and already has financing in place.

Mr. Lektzian stated the borrower is Sviland, Inc. and will be guaranteed by Lofts Manager, LLC. The ownership between Lofts Manager, LLC. and Lofts Owner, LLC. is now 50.1% ownership. Swanee, Inc. is the borrower and they are the managing member of Lofts Manager. Lofts Manager will be the entity that negotiates all of the leases for commercial and residential. The ownership of the property will be in Lofts Owner, LLC.

Treasurer Valentine stated Matt and Beth Sviland would also be guarantors on both. The interest rate and the loan term (how long the Board will let the loan run) needs to be discussed. The Board is comfortable with First Bank approving all draw requests and providing such information to the City. Delta Title will be used by First Bank.

First Bank is doing 15 year loan after the seventh year forbearance. Interest is being paid for the first seven years. Currently prime is 3.25%.

Mr. Lektzian stated that after the seventh year all entities go away as the length of time for the usability for the tax credits are exhausted. First Bank is considering the ownership will revert back to Swanee, Inc. and/or Svilands personally and at this point, the note will be rewritten and a mortgage position done.

A motion was made by Boardmember Beaudoin, seconded by Boardmember Economos, to approve a four year adjustment with year one through four being interest only payments at prime and year four just an adjustment with a continuation until year seven. At the end of year seven, the City will reset with the interest rate again and amortize over fifteen years. Rate adjustment after year four and every three years thereafter. Motion made with City Administration and Legal Counsel approval.

Roll Call Vote:

Ayes: Boardmembers Beaudoin and Economos, and Chairperson Kobasic

Nays: None

Abstained: Boardmember Dagenais

Motion passed.

General Public Comment

None.

Announcements

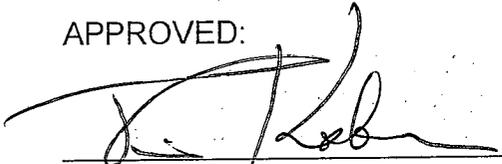
None.

Adjournment

A motion was made by Boardmember Economos, seconded by Boardmember Beaudoin, to adjourn the meeting at 8:40 a.m.

Motioned approved unanimously.

APPROVED:


TIM KOBASIC, CHAIRPESON


KIMBERLY PETERSON, RECORDER