



FOR AGENCY MEETING OF: September 27, 2010
AGENDA ITEM NO: 4 (b)

TO: URBAN RENEWAL AGENCY BOARD
THROUGH:  LINDA NORRIS, EXECUTIVE DIRECTOR
FROM:  RICK L. SCOTT, DIRECTOR
URBAN DEVELOPMENT DEPARTMENT
SUBJECT: RIVERS CONDOMINIUM FUNDING REQUEST

ISSUE:

Staff is seeking clarification from the Urban Renewal Agency Board regarding “acceptable” collateral from Riverfront Park, LLC for a loan on the Rivers Condominiums.

RECOMMENDATION:

Agency Board consideration on collateral options acceptable to the Board.

BACKGROUND:

On July 26, 2010, the Agency Board approved a motion to loan \$500,000 to Riverfront Park, LLC to complete the interior build outs of four units of the Rivers Condominium project (Rivers). The motion approved by the Agency Board is as follows:

“...to approve a loan of \$500,000 to Riverfront Park, LLC to complete the interior build outs of four units of the Rivers provided the City is in first position on the building or, with alternative collateral acceptable to the Board, and the developer/builder provides bids and invoices on all work related to the build out and the City has final veto on all those, and the developer/builder provides personal and business financial statements”.

Staff is seeking clarification of the Agency Board’s motion as it relates to the term “acceptable collateral to the Board”.

Since the July 26th meeting, staff and outside legal counsel have had an opportunity to talk with the Vice President of Umpqua Bank (Bank) about repayment and collateral options for an Agency loan on the Rivers Condominium project. The Bank and Crown Investment have a first and second lien on the Rivers building respectively.

The equity investor, Crown Investment, did not participate in the meeting, and therefore any proposed terms for sale proceeds distribution and additional debt on the building would be subject to their approval.

The Bank indicated at the meeting it would agree to allow the Agency to be in first position for repayment of the Agency loan from proceeds of the sale of any unit built out with Agency funds. The Bank was not willing to subordinate its first lien position in terms of lien priority. Therefore, in the event of a foreclosure, the Agency's loan would be subject to the satisfaction of both the Bank and Crown Investment's debt.

FACTS AND FINDINGS:

After staff's discussions with the Bank, Riverfront Park, LLC submitted an alternative collateral option for Agency Board consideration that requests the Agency consider a secondary lien position on the building known as Whitlocks, located at 455-467 Court St. NE, and Lafky & Lafky Law Offices at 421-435 Court Street NE. Riverfront Park, LLC also submitted appraisals on the two buildings dated June 2009, which reflect a total combined value of \$2.37 million and combined outstanding first mortgage debt of \$1.29 million.

Staff's interpretation of the motion adopted on July 26th is the Agency Board has a preference for collateral to be in a first lien position on the building; however, it also provides an opportunity to consider alternative collateral options. Because any lien position other than a first carries increased risk of loan repayment, staff is seeking clarification from the Agency Board on their expectation for an acceptable level of risk for a \$500,000 loan, including a second lien position on multiple buildings as alternative collateral.

A secondary lien position increases the risk to the Agency of being repaid. In the case of a default, and depending on the value of a property at that time, the mortgage holder of a secondary lien may be required to pay off the first mortgage in order to recover their debt.

Typically, most conventional lenders do not lend on properties when they are not secured in a first lien position due to their increased risk of being repaid, additional costs to perfect a first lien position in case of default, ability and timeline to liquidate a property if a problem occurred, and most banks cannot sell their loans to other institutions that are not secured in a first lien position.

The loan program administered by the Urban Development Department provides maximum flexibility on terms to encourage redevelopment in downtown and allows for a secondary lien position. The loan process to determine the Agency's lien position and acceptable level of risk for funding includes an underwriting process that evaluates the borrower's financial capacity, requires current appraisal and property condition information to determine level of funding to property equity, and based on a review of this information, may include

conditions to funding such as personal guarantees, environmental indemnification, and property repairs.

If a secondary lien position is acceptable to the Agency Board, staff will move forward with an evaluation of collateral appropriate for a second lien position.

Report Prepared by: Sheri Wahrgren, Downtown Revitalization Manager
G:\URBANDEV\ADMINISTRATION\Final Council Staff Reports\2010\SEP 27\Rivers Funding Request\Collateral Options Rivers CondominiumsV2.doc