



Request for Action

TO: Economic Development Authority
THROUGH: Deanna Kuennen, Community & Econ Dev Director
FROM: Samantha Markman, Econ Development Coordinator
MEETING DATE: January 17, 2019
SUBJECT: Approve Updated Subordination Policy

Background

At the last meeting, December 20, 2018, the EDA requested staff look to edit the existing subordination policy to be more flexible to forgivable loan subordination requests, as well as review the application to ensure all fields of the application are applicable for approval. The recommended changes from the existing policy allow staff approval for subordination requests on forgivable liens, even if all guidelines are not met but in the best interest of the financial partners and applicant.

In reviewing subordination applications, the EDA has set the following guidelines for approval:

- The EDA will not subordinate its lien position unless the request is to refinance the first mortgage at prevailing market rates/fees or the request is for additional equipment or expansion of the current facility.
- The EDA's loan must be in a current status and not in default of any of its terms or conditions.
- No "cash out" is allowed.
- The combined loan to value ratio may not exceed 90%.

If the lien is payable, the above guidelines must be met. Each request is determined on a case-by-case basis. If the EDA's lien is structured as forgivable, Staff will utilize the same established guidelines for review and approval of subordination requests. However, request may still be approved if guideline are not met but in the best interest of the financial partners and applicant.

In addition to the change in guidelines for payable versus forgivable liens. Staff also removed the Social Security Number and Tax ID from the application form. These items were not found to be necessary information for staff's review and consideration of the applications. For that reason, these items have been removed from the application.

Requested Action:

The EDA is asked to approve the edits made to the Economic Development Authority Subordination Guidelines and adopt the updated application for all requests moving forward.

Attachments:

- Updated Economic Development Authority Subordination Guidelines and Application

ECONOMIC DEVELOPMENT AUTHORITY SUBORDINATION GUIDELINES

Occasionally the Economic Development Authority receives requests to subordinate their mortgages. The following guidelines establish conditions associated with the approval of such requests. Each request for subordination of mortgages held by the Economic Development Authority (EDA) is reviewed by Staff for completeness and approval if the established conditions for subordination are met.

To submit a request for subordination, the EDA's Application for Subordination Agreement must be completed by the lending institution requesting the subordination. The application must be fully completed and returned with a \$35.00 fee. Please allow ten business days for processing.

In reviewing Subordination Applications, the EDA has set the following guidelines for approval, *if the EDA's lien is payable*.

- The EDA will not subordinate its lien position unless the request is to refinance the first mortgage at prevailing market rates/fees or the request is for additional equipment or expansion of the current facility.
- The EDA's loan must be in a current status and not in default of any of its terms or conditions.
- No "cash out" is allowed.
- The combined loan to value ratio may not exceed 90%.

The above are guidelines used in reviewing each subordination request, and each request is determined on a case-by-case basis. Please also note, if the EDA's lien is structured as forgivable, Staff will utilize the same established guidelines for review and approval of subordination requests. However, requests may still be approved if guidelines are not met but in the best interest of the financial partners and applicant.

Subordination requests that do not meet the established guidelines will be forwarded to the EDA for review and determination. The request will be added to the EDA's meeting agenda, for their next regularly scheduled meeting.

Failure to fully provide all requested information will delay review and action. Please remit the \$35.00 application fee payable to the Economic Development Authority (EDA) along with the completed application to:

Economic Development Authority
Attn: Deanna Kuennen
208 NW 1st Avenue
Faribault, MN 55021
507-333-0376

APPLICATION FOR SUBORDINATION AGREEMENT

This application is to be completed by the lending institution requesting the subordination of the EDA loan. **The processing fee is \$35.00.**

BUSINESS OWNER'S NAME: _____

BUSINESS OWNER'S ADDRESS: _____

SUBJECT SITE ADDRESS: _____

SUBJECT SITE PID : _____

WHAT IS THE PURPOSE OF THE REFINANCING?: (Please be very specific)

NAME AND ADDRESS OF FINANCIAL INSTITUTION THAT HOLDS CURRENT MORTGAGE THAT WILL BE SATISFIED:

CURRENT TERMS: Interest Rate: _____

Number of Years: _____

Monthly Payment: _____

Balance Remaining: _____

ARE THERE ANY ADDITIONAL MORTGAGES ON THE PROPERTY (excluding the EDA's mortgage) Yes ___ No ___ (Attach additional sheet, if necessary).

How many additional mortgages: _____

If yes, what is the amount: _____

Mortgagee: _____

Will this mortgage be satisfied through the refinancing: Yes ___ No ___

Terms: Interest Rate: _____ Number of Years: _____

Monthly Payment: _____ Remaining Balance: _____

CURRENT ESTIMATED MARKET VALUE ON PROPERTY TAX STATEMENT: _____

HAS THIS PROPERTY BEEN APPRAISED: Yes _____ No _____

If yes, date of appraisal: _____

What is the appraised value: _____

PROPOSED TERMS FOR NEW MORTGAGE:

Interest Rate: _____ Number of Years: _____

Monthly Payment: _____ Amount of Loan: _____

NAME AND ADDRESS OF FINANCIAL INSTITUTION THAT WILL CARRY NEW MORTGAGE:

_____ **Phone Number:** _____
Fax Number: _____
Contact Person: _____

NAME AND ADDRESS OF WHERE SUBORDINATION SHOULD BE MAILED:

_____ **Phone Number:** _____
Fax Number: _____
Contact Person: _____

I understand that this is not a contract and does not bind either party. I certify this information being given to the Economic Development Authority is accurate and complete to the best of my knowledge. I understand that the EDA will rely upon this information in making its decision to enter into a subordination agreement. I am authorized by the lending institution requesting the subordination to submit this information to the EDA. I understand that providing false information or making false statements are punishable under State and Federal law.

Printed Name of Person Completing Form

Date

Signature of Person Completing Form