



## Request for Action

**TO:** Economic Development Authority  
**THROUGH:** Deanna Kuennen, Community & Econ Dev Director  
**FROM:** Samantha Markman, Econ Development Coordinator  
**MEETING DATE:** February 20, 2020  
**SUBJECT:** Subordination Request – 31 3<sup>rd</sup> Street NE; Rebound 31 Faribault, LLC

---

### Background

In 2014, Rebound 31 Faribault, LLC received an Economic Development Revolving Loan totaling \$60,000.00 to assist in financing the upgrade and improvement of the commercial address 31 3<sup>rd</sup> Street NE. Since that time, the loan has remained current on payments and is due to satisfy May 31, 2024.

On February 10, 2020, Staff received a subordination request from Community Resource Bank on behalf of Rebound 31 Faribault, LLC regarding a pending restructure of the first mortgage on the property. The EDA is currently in a third lien position to both the first and second mortgage on the property. With the pending new mortgage, the EDA would subordinate to the new \$600,000 capital but remain in the same lien position, due to the refinancing of an existing mortgage.

|  |                |
|--|----------------|
| 1 <sup>st</sup> Mortgage Balance             | \$456,751.19   |
| 2 <sup>nd</sup> Mortgage Balance             | \$112,063.98   |
| EDA Revolving Loan Fund Balance              | \$27,709.35    |
| 1 <sup>st</sup> Mortgage Restructure Balance | \$1,056,751.00 |

The additional \$600,000 resulted from the 1<sup>st</sup> mortgage restructure will be held in escrow with the property owner's attorney's office to ensure funds are utilized for intended improvements. The additional capital will be utilized for the build out of the 2<sup>nd</sup> and 3<sup>rd</sup> floors at 31 3<sup>rd</sup> Street NE.

The way the current subordination agreement policy is structured the EDA will not subordinate to loans where the combination loan to value ratio may not exceed 90 percent. Currently, 31 3<sup>rd</sup> Street NE has an appraised value of \$936,000 (June 24, 2019), although, the expected value with completed improvements is \$1,400,000. With the proposed 1<sup>st</sup> mortgage restructure, 2<sup>nd</sup> mortgage balance, and EDA loan balance the combined loan to value ratio is 113 percent – with intended improvements the combined loan to value ratio is expected to be 75 percent. Staff is unable to approve the subordination request due to the deviation from the guidelines and asks the EDA to consider the request.

**Requested Action:**

The EDA is asked to consider the subordination request which would result in the EDA remaining in a third lien position, behind the first and second mortgage with Community Resource Bank, for the lien granted by the payable loan to Rebound 31 Faribault, LLC in 2014.

**Attachments:**

- Application for Subordination

# 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: Rebound 31 Faribault, LLC

BUSINESS OWNER'S ADDRESS: 527 Professional Drive, Suite 100  
Northfield, MN 55057

SUBJECT SITE ADDRESS: 31 NE 3rd St., Faribault, MN 55021

SUBJECT SITE PID: 18.31.1.77.001, 18.31.1.77.002, 18.31.1.77.003, 18.31.1.77.004,

WHAT IS THE PURPOSE OF THE REFINANCING?: (Please be very specific) 18.31.1.77.005, 18.31.1.77.006

Providing additional funds in order to renovate the 2<sup>nd</sup> and 3<sup>rd</sup> floors of the building into apartments

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

Community Resource Bank, 1605 Heritage Drive, Northfield, MN 55057

CURRENT TERMS: Interest Rate: 4%

Number of Years: 8 years

Monthly Payment: \$3,388.81

Balance Remaining: \$456,751.19 → This mortgage would be modified to increase it by \$600,000 to a new balance of \$1,056,751

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

How many additional mortgages: 1

If yes, what is the amount: \$112,063.98 → outstanding balance

Mortgagee: Community Resource Bank

Will this mortgage be satisfied through the refinancing: Yes  No

Terms: Interest Rate: 4.5% Monthly Payment: \$2,300.32

Number of Years: 5 Remaining Balance: \$112,063.98

CURRENT ESTIMATED MARKET VALUE ON PROPERTY TAX STATEMENT: \$694,300 - combined value of all 6 PIDs

HAS THIS PROPERTY BEEN APPRAISED: Yes X No \_\_\_\_\_

If yes, date of appraisal: June 24, 2019

What is the appraised value: As-Is: \$936,000 As Complete with  
intended improvements: \$1.4  
mills

PROPOSED TERMS FOR NEW MORTGAGE:

Interest Rate: 4.40 Number of Years: 5

Monthly Payment: \$6,664.39 Amount of Loan: \$1,056,751

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

Community Resource Bank Phone Number: 507-645-3136

1605 Heritage Drive Fax Number: 507-645-3100

Northfield, MN 55057 Contact Person: Marty Benson

NAME AND ADDRESS OF WHERE SUBORDINATION SHOULD BE MAILED:

Ryan L. Blumhoelter Phone Number: 507-645-9541

Schnitz, Ophang & Blumhoelter LLP  
220 Division St. S. Fax Number: 507-645-8232

Northfield, MN 55057 Contact Person: Ryan Blumhoelter

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.

Marty Benson  
Printed Name of Person Completing Form

2-10-20  
Date

Marty Benson SVP of CRB  
Signature of Person Completing Form