



CommunityDevelopmentAuthority

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DATE: December 12, 2016

TO: CDA Board

FROM: Natalie Erdman, Executive Director
Community Development Authority

SUBJECT: Resolution #4251 Authorizing Extension of Johnson Bank Loan

I am sorry that I am not able to be with you at the December 14, 2017 Board Meeting. Resolution # 4251 is before you for consideration. I would like to provide additional background that could be useful as you consider the resolution authorizing a five (5) year extension of a loan from Johnson Bank to the Community Development Authority (“CDA”). I would like to like to address two items more specifically.

- The CDA was given the option of a three (3) year or five (5) year extension. Staff is recommending a five (5) year extension.
- The CDA did not solicit proposals from other financial institutions

Recommended five (5) year extension

Johnson Bank is willing to provide a three (3) year extension at a rate fixed at LIBOR + 230 basis points (4.24% as of October 2017) or a five (5) year fixed rate at LIBOR + 230 basis points (4.38% as of October 2017). The difference in interest amounts to approximately \$1,115 on an annual basis. Given an expectation of rising interest rates, staff recommends fixing the rate for five years.

No Solicitation of Additional Financing Proposals

The decision to recommend an extension of the Johnson Bank loan without soliciting proposals from other financial institutions was made for the following reasons.

- NEF, as the investor in Revival Ridge, has the right to approve any debt secured by the property and in the past has been unwilling to approve any third party debt, and
- NEF’s unwillingness to approve third party debt required that Johnson Bank take an unusual collateral position in 2011 when they first provided the loan to the CDA. Staff believes that it would be difficult to obtain a similar loan from another financing source. (*See additional details on collateral below*), and

- An extension of the Johnson Bank loan will not require the payment of expenses such as legal fees, origination fee and the cost of an appraisal, and
- The interest rate being charged is in line with other debt proposals seen in the market place.

Background

The CDA is the managing member of Allied Drive Redevelopment, LLC. The LLC constructed and owns a 49 unit, affordable housing development on Allied Drive (“Revival Ridge”). Revival Ridge was financed in part with affordable housing tax credits and National Equity Fund (“NEF”) provided the tax credit equity. In addition, the CDA borrowed approximately \$1.255 Million from Fannie Mae American Communities Fund (“Fannie Mae”) and lent those funds to Allied Drive Redevelopment, LLC to pay for a portion of the cost of constructing Revival Ridge. The CDA’s loan to Allied Drive Redevelopment, LLC is secured by a first mortgage and payments from Allied Drive Redevelopment, LLC were used to make payment on the loan from Fannie Mae. The terms of the loan to Allied Drive Redevelopment, LLC are set forth below.

Fannie Mae did not require a mortgage or other security, but instead looked solely to the financial strength of the CDA.

CDA Loan to Allied Drive Redevelopment, LLC

Amount: \$1,255,000
Rate: 4.50%
Term: 30
Maturity: 2038
Security: First Mortgage and Assignment of Leases and Rents which, in the case of default, is not foreclosable.

In 2011, Fannie Mae ended the American Communities program and notified the CDA that it would not be extending its loan to the CDA. The CDA solicited and received proposals from three banks to repay the Fannie Mae loan. Johnson Bank provided the most advantageous terms.

All of the bank proposals required collateral and security in the form of a first mortgage against Revival Ridge and assignment of rents. NEF as the investor in Revival Ridge has the right to review and approve all loans secured by the property. NEF was unwilling to approve a mortgage secured by Revival Ridge to any party other than the CDA. After significant negotiation, Johnson Bank accepted a note from the CDA and the assignment and amendment of the mortgages and notes that run from Allied Drive Redevelopment, LLC to the CDA. NEF after careful consideration approved the assignment and amendment of the mortgages and notes.