

**CITY COUNCIL
COMMUNICATION:**

03-443

AGENDA:

SEPTEMBER 8, 2003

SUBJECT:

FIRST AMENDMENT
TO THE
SUBORDINATION
AGREEMENT TO
PERMIT AN
INCREASE IN THE
FIRST MORTGAGE
AMOUNT

TYPE:

RESOLUTION
ORDINANCE
RECEIVE/FILE

SUBMITTED BY:

LARRY HULSE
COMMUNITY
DEVELOPMENT
DIRECTOR

ITEM _____

**OFFICE OF THE CITY MANAGER
CITY OF DES MOINES, IOWA**

SYNOPSIS —

Woodland Avenue Partners, L.P. (Jack Hatch, Developer, 696 – 18th Street, Des Moines, Iowa 50314) has requested that the City Council approve a first amendment to the subordination agreement in the form on file in the Office of the City Clerk.

FISCAL IMPACT —

This amendment does not have an adverse impact on the interests of the City. All other terms of the mortgage, assignment, and subordination shall remain in full force and effect, and will not affect the order of indebtedness for all junior lien holders.

Approval permits an increase in the first mortgage loan amount of \$550,846, or to a maximum first mortgage amount of \$3,275,000. The “locked” interest rate for the permanent loan is less than what was anticipated during the original project underwriting, thereby increasing the debt capacity of the developer for the project.

RECOMMENDATION —

Approval.

BACKGROUND —

The City of Des Moines has been working with the borrower, Woodland Avenue Brickstones, since the inception of the project to develop the site.

This project consists of 56 apartment units in two buildings to be located between 15th and 16th Streets on Woodland Avenue. The development will consist of 41 market rate units, and 16 affordable housing units funded through the HOME Investment Partnerships Program by the U.S. Department of Housing and Urban Development (HUD). The City’s investment of HOME funds in this project is \$242,110.

On August 19, 2002, by Roll Call No. 02-2078, the City Council approved the standard HOME contract documents for this project.

On October 7, 2002, by Roll Call No. 02-2473, the City Council approved a revision to the original documents to be consistent with underwriting

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standards for tax credit equity.

On July 14, 2003, by Roll Call No. 03-1619, the City Council approved an Amendment to the HOME Agreement for additional costs incurred by the developer for the construction of the property.

The action item on September 8, 2003, is requesting the City Council to approve a first amendment to the subordination agreement in the form on file in the Office of the City Clerk to permit an increase in the first mortgage loan amount of \$550,846, or to a maximum first mortgage amount of \$3,275,000. This action will provide an additional financial cushion for other unanticipated cost increases. Upon a financial review of the development proforma for the project, the "locked" interest rate is less than was anticipated during the underwriting process of the project, and increases the debt capacity of the developer. Although the total loan amount will increase, the reduction in the interest rate will result in more cash available for the distribution of debt service.

