

# NEWSED Loan Modification

Business, Workforce and Sustainability Committee

February 23, 2011



**GROWDENVER**  
The Office of Economic Development



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## NEWSED Development Corporation

- **NEWSED Community Development Corporation, Inc.**
  - 37 year history of promoting economic development in the Hispanic community
- **Revitalization of Santa Fe Drive**
  - Created the Santa Fe Drive Redevelopment Corporation (non-profit merchants association)
  - Coordinated public and private investment in over 100 businesses, creating over 1,000 jobs
  - Santa Fe District now recognized as an emerging concentration area for art, music and business
- **Affordable Housing**
  - Developed 274 affordable sale and rental units
  - Rehabbed 120 for sale units
- **Commercial Development**
  - Developed over 600,000 sf of commercial real estate, including two shopping centers and two mini centers



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## Proposed Santa Fe Drive Redevelopment Corp. Amendments

- **Loan #1: \$390K**
  - *Purpose:* Acquisition, demolition and construction of a parking lot and small community facility
  - *Collateral:* City has 1<sup>st</sup> deed of trust
  - *Current Balance:* \$259K
  - *Current Terms:* Principal only payments of \$900 with a \$264K balloon payment in May 2011
  - *Proposed Amendment:* Principal only loan payments of \$900 until the new maturity date of January 1, 2036
  
- **Loan #2: \$163K**
  - *Purpose:* Acquisition, demolition, and construction of a parking lot
  - *Collateral:* City has a 1<sup>st</sup> deed of trust
  - *Current Balance:* \$96K
  - *Current Terms:* Principal only payments of \$600 per month with a \$99K balloon payment in May 2011
  - *Proposed Amendment:* Principal only loan payments of \$600 until the new maturity date of April 1, 2025



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## Proposed Newsed Development Corp. Amendments

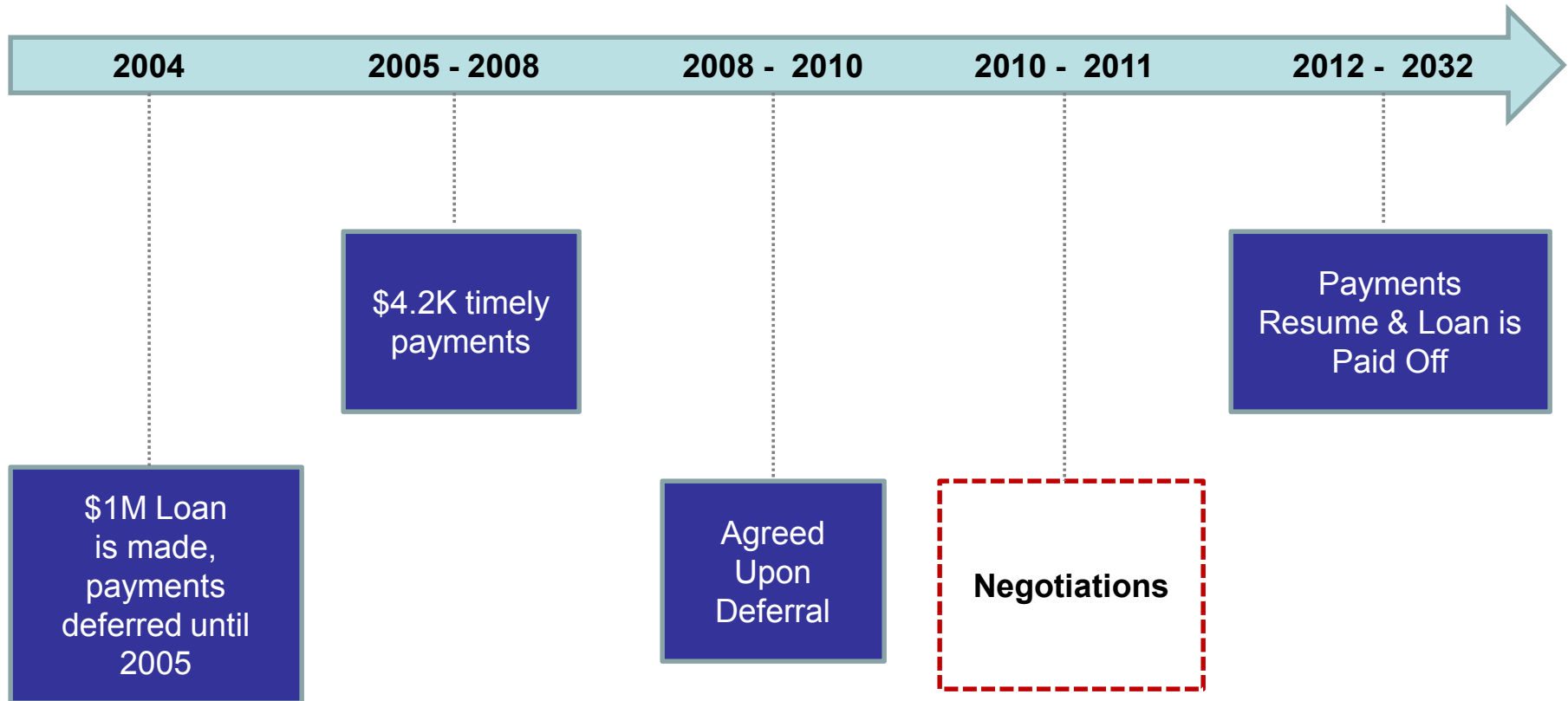
- **Loan #3: \$405K**
  - *Purpose:* Purchase of 1029 Santa Fe Drive (HQ of Santa Fe Drive Redevelopment Corp. “**SFDRC**”)
  - *Collateral:* City has a 2<sup>nd</sup> Lien
  - *Current Balance:* \$197K
  - *Current Terms:* Principal only payments of \$1,500/mo, with no balloon (fully amortized)
  - *Amendment:* \$900 monthly principal only payments resume June 2012 until loan maturity on August 2030
  
- **Loan #4: \$127K**
  - *Purpose:* Renovation of 1029 Santa Fe Drive
  - *Collateral:* City has a 3<sup>d</sup> Lien
  - *Current Balance:* \$103K
  - *Current Terms:* Principal and interest payments of \$534/mo with no balloon (fully amortized)
  - *Amendment:* \$534 monthly payments @ 3% interest resume June 2012 until loan maturity in June 2034

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## Proposed Newsed Development Corp. Amendments

- **Loan #5: \$1.0M – Action Item**
  - *Purpose:* Construction of 901 W. 10<sup>th</sup> Avenue (current HQ of NEWSSED)
  - *Collateral:* 4<sup>th</sup> Lien on 1029 Santa Fe Drive
  - *Current Balance:* \$940K
  - *Current Terms:* Principal and interests of \$4,216 a month @ 3% interest with a \$860K balloon payment in January 2014
  - *Proposed Amendment:*
    - Deferment of payments from June 2010 - June 2012
    - June 2012, \$3K monthly P&I payments @ 3% interest until December 2018
    - January 2019, \$5K monthly P&I payments @ 3% interest until December 2025
    - January 1, 2026, \$8K monthly P&I payments @ 1.5% interest until loan paid off in October 2032







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## Proposed Newsed Development Corp. Amendments

- **Prior Cash Flow Constraints**
  - Loss of major tenants (Santa Fe Tequila Company; Woodcrest Homes; & Laughing Bean)
  - Economic downturn of 2008
- **Current Operations**
  - Fully leased and by three tenants:
    1. NEWSSED (non-profit) @ 5K sf
    2. Interstate Kitchen @ 5K sf
    3. Frills Bakery @ 1K sf
- **Conservative Underwriting**
  - Vacancy rate assumption of 7%
  - Cash flow assumption burdened by \$15K contingency
  - Loan is fully collateralized



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## Loan Portfolio Analysis

- **\$131M Loan Portfolio**
  - Federally funded loan program
- **Default Rate Is Decreasing as a Result of Loan Modifications**
  - 17.4% default rate in October 2011
    - Compared to a national average of 25% for similar federally funded City loan programs
  - 13.9% default rate as of January 31, 2012
  - Goal is to have a default rate no greater than 10% by January 31, 2013
    - Compared to a national average of 5-8% for commercial banks
- **\$2M NEWSED Loan Modification Represents 12% of Total Dollar Amount of OED Default Loans**
  - OED is currently in loan modifications negotiations with three other borrowers
    - \$3.3M in aggregate loan amount, which represents 18% of total dollar amount of OED default loans



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## Changes to OED Loan Administration

- **Revamped Loan Review Committee (LRC)**

- *Membership:* Executive and deputy OED directors; Head of the Strategic Investment division; OED underwriting staff; City Treasury representative
- *Consistent Presentation:* All loan request are presented in a consistent, best-in-class format so that members can evaluate quickly and thoroughly
- *Streamlined Process:* Loans are voted upon within 30 days of completed application; borrowers present the opportunity to LRC and LRC votes at the meeting; written response provided within 48 hours

- **Focused Underwriting Criteria**

- Strategic Investment division underwrites all loans (business , housing and neighborhood)
- Loans are systematically evaluated against:
  - Conformity to key priorities of the Mayor’s economic development strategy
  - Community impact
  - Ability to pay back the loan and history of repayment by borrower (**delinquent borrowers no longer eligible for additional funds**)

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## Changes to OEDs Approach to Loan Portfolio

- **Greater Financial Integrity**
  - Conservative underwriting
  - Pragmatic loan structures
- **Increased Strategic Focus**
  - Conformity with broader economic development objectives
    - Economic Development Strategy → Allocate Capital → Choose a partner
    - Remain in constant communication with the community and its stakeholders
- **More Accountability** (and follow up)
  - Programmatic compliance & efficacy
    - National objectives & economic development initiatives
  - Financial performance
    - OED to protect the integrity of the loan program by managing default loans in a more timely manner

