HASTINGS ECONOMIC DEVELOPMENT AND REDEVELOPMENT AUTHORITY

PROGRAM REGULATIONS

COMMERCIAL REHABILITATION LOAN & INTEREST RATE REDUCTION

The City of Hastings, by Ordinance, authorized the Housing and Redevelopment Authority in and for the City of Hastings to administer a local Commercial Rehabilitation Loan Program in accordance with Minnesota Statutes, Section 469.184. Minnesota Statutes Section 469.012, Subdivision 7 (7) authorized the HRA to develop and administer an Interest Reduction Program to pay, in periodic payments or in a lump sum payment, any or all the interest on loans made under 469.184 for the rehabilitation of small and medium-sized commercial buildings.

The HEDRA, as successor to the HRA, does hereby establish program guidelines to be used in conjunction with the commercial loan and interest rate reduction programs. These program regulations have been adopted by the HEDRA Board on March 12, 2009, incorporating the changes made by HRA Resolution No. 4-2006, and the reauthorization of the program by City Council on December 4, 2006, for a period ending December 31, 2011.

I. FOR BOTH DIRECT LOANS AND INTEREST REDUCTIONS.

A. ELIGIBLE BORROWERS: Owners of property meeting the size and location standards of the Program as described in under C. Owners may be individuals, partnerships, corporations or joint ventures. Owners include Contract for Deed purchasers with the fee owners’ consent.

B. LENDERS: The loans will be made by HEDRA or, subject to HEDRA approval, by other financial institutions.

C. PROPERTY ELIGIBILITY:

1. Small and Medium Sized Commercial Building: A commercial building with less than 40,000 square feet of floor space used for retail, service, display, office, inventory or storage.
2. Eligible Geographic Area: A property must be located within a City-designated redevelopment project area. There are currently two project areas: Downtown and Vermillion Street. The building must also be located on property zoned for the commercial use as defined in the City of Hastings Zoning Ordinance.

D. THE IMPROVEMENTS

1. Exterior improvement: Changes to exterior of a building will be in

conformance to the Heart of Hastings Design Guidelines, or Vermillion Street Development Guidelines. Work on designated Hastings Heritage Preservation properties must have a Certificate of Approval from the Heritage Preservation Commission.

2. Building Codes: Repairs and improvements to the building will be in compliance with the City and State Building Codes. The work must have a Building Permit.
3. Work which may be included in the direct loan or the interest reduction:
    a) Replacement and repair of materials and design features of the exterior of the building and the interior commercial space. Restoration or duplication of deteriorated or missing original materials and architectural features on historic buildings.
    b) Repair and maintenance of the building including the structural stability and integrity of roof, walls, floors and ceilings. Necessary infrastructure repair or replacement.
    c) Interior and exterior remodeling:
        - Reconfigure spaces for new uses.
        - Code improvements such as fire safety and access.
        - Energy-related improvements such as insulation, windows, heating and cooling systems.
        - Appearance-related improvement such as awnings, doors, windows, siding and painting.
        - Flooring, wall and ceiling treatments, electric fixtures.
    d) Site improvements including parking lot and landscaping. Replacement of non-conforming or unsightly signage.

4. Residential space: Repairs and improvements to the residential portion of a building meeting the definition of small or medium sized commercial building are permitted but shall not exceed 49% of the total cost of the work.

5. Eligible Rehabilitation Expenses
    a. Construction material
    b. Labor, unless performed by the owner or the owner’s employees
    c. Architect and engineer
    d. Attorney, closing and recording fees
    e. Bank fees, including any loan service charges, appraisal fees, credit reports, inspection, abstract and filing fees, registration taxes, attorney opinions, and title insurance premiums.
    f. Building permit, SAC & WAC fees
    g. Construction period interest

6. Ineligible Expenses. Refinancing or existing debt as a loan expenditure is not permitted. Work will not include acquisition, installation or repair of personal property, moveable furnishings, or of fixtures that not allowed under IRS regulations to be depreciated at the same rate as the buildings.

7. HEDRA's costs in making a loan or interest reduction, including staff, consultant, legal and recording fees will be added to the principal amount of the installment loan or to the interest reduction for reimbursement.

E. BUSINESS SUBSIDY. The loan or interest reduction may be a Business Subsidy under state law if the amount exceeds $150,000 or more than 50% of the total project cost. A subsidy requires a hearing, possibly the creation of jobs, continued operation of the business for five years and a reporting and reimbursement agreement.

F. PRIORITIES. The following public purposes will be given preference:

1. Work which contributes to the area redevelopment plan.
2. Work which brings the building entirely up to code.
3. Work which improves the appearance of the building or site.
4. Work which makes space available for locally-owned business and/or the creation of new local jobs.
5. Work which combines improvement to commercial and residential spaces.
6. Work which includes historic preservation and restoration.

G. AVAILABILITY OF FUNDS. Meeting the requirements does not imply a right to a loan or interest reduction. Consideration of applications is always subject to the availability of funds at the sole discretion of the HEDRA.

H. DEMONSTRATION OF NEED. Public funds are limited and directed towards projects where the need is greatest. A statement and documentation of the need for assistance is expected. Types of need that may be considered are:

1. The potential increase in revenues does not cover the costs of the rehabilitation; proforma income, expenses and debt service.
2. The improvement does not necessarily translate into higher rents or value.
3. Private lenders do not provide all the funds needed to complete the rehabilitation; lending limits, loan to value ratios, etc.
4. The work is required by code or immediate maintenance and it will take time to recover the costs.

II. DIRECT HEDRA LOAN

A. HEDRA IS THE LENDER. The financial feasibility of the project and the credit of the borrower will be assessed by HEDRA staff and consultants. The same building is eligible no more than once every five years. The HEDRA may make an exception for emergency repair or a phased project.

B. AMOUNT OF THE LOAN. The maximum loan will be 25% of the costs per building unless the Board specifically approves a higher amount, justified by unusual circumstances. Regardless, the loan cannot exceed $200,000 per building.

C. INSTALLMENT LOAN. The owner will be billed monthly for principal and interest. No payments are required for the first 12 months. The balance may be paid at any time without penalty. The HEDRA's interest in the property will be secured by a lien or mortgage.

D. TERMS

1. Rate: No interest is charged for the first 12 months. Monthly payments at 4% interest start 12 months after the first draw. Starting in year five, and continuing until the loan is paid in full the interest rate is 9%.
2. Term: The normal term is 10 years, but cannot exceed 20 years.
3. A loan cannot exceed 80% of the market value of the property upon completion of the rehabilitation, less the outstanding balance of any prior mortgages.

E. REQUIREMENTS .

1. The owner submits the application with estimated costs and preliminary plans or descriptions of the work to staff.
2. Approval of the application will be contingent upon acceptable final plans, cost estimates and city approvals. Work is not to start until final approval of the loan and city approvals and permits are secured.
3. The HEDRA may, at its sole discretion, consider a loan for a project which has been financed, secured city approvals and permits and is under way.
4. The owner may draw against the loan monthly, by providing the staff copies of invoices showing payment and/or cancelled checks with a list of the work for which the payment was made.
5. Before the first draw, the owner will sign an agreement, a note and execute a mortgage. The repayment obligation will be secured by a lien recorded against the rehabilitated property.

III. INTEREST REDUCTION PAYMENT

A. INTEREST REDUCTION: This form of assistance is an alternative to a direct loan from HEDRA. It may be more appropriate for a project that exceeds the HEDRA's loan limit. The payment is made to the lender and owner jointly to reduce the cost of interest on a loan which meets the other requirements included in this regulation. Work on the same building is eligible no more than once every five years. The HEDRA may make an exception for emergency repair or a phased project.
B. AMOUNT OF REDUCTION: The payment shall not exceed an amount that would have the effect of reducing the interest rate by 6 percent per annum from current market rates, but not lower than 3 percent. The maximum

interest reduction amount will be $30,000 per building, unless the Board specifically approves a higher amount, justified by unusual circumstances.

C. REPAYMENT: The interest reduction payment will be repaid to the HEDRA upon the sale of the property as described in Minnesota Statutes 469.012. Subd 9. The HEDRA's interest in the property will be secured by a lien or mortgage.

D. THE LOAN: Property owners must borrow the funds for the work in order to qualify for this program. The amount of assistance is calculated on the interest to be paid on the loan. Most lending institutions are acceptable.

1. Rate: The maximum rate for fixed rate loans or initial rate for variable rate loans may not exceed a rate in excess of the equivalent of national prime rate (as published in the Wall Street Journal) plus 4 percentage points.
2. Term: No loan shall be made for a period exceeding 20 years. Loans must be for a minimum term of five years to be eligible for the interest rate subsidy.
3. Amount: The loan may not be in excess of $200,000 per building. If a large loan is necessary, only $200,000 will qualify for interest reduction. Lenders, at their sole discretion, may advance up to 20 percent of the approved loan amount to cover cost overruns as long as the work performed meets all requirements of the program and is consistent with the project presented to HEDRA. Any additional advances covered by this section will be included in the final loan amount and be covered by the interest rate reduction subsidy.
4. A loan cannot exceed 80% of the market value of the property upon completion of the rehabilitation, less the outstanding balance of any prior mortgages.

E. REQUIREMENTS .

1. The Lender must write a letter to the HEDRA stating their preliminary approval, the principal amount of their loan, the interest rate, fixed or variable, and the term.
2. The owner submits the application with estimated costs and preliminary plans or descriptions of the work.
3. Preliminary approval of the application will be contingent upon acceptable final plans, evidence of financing and city approvals being provided. Work is not to start until final approval of the loan and interest reduction and city approvals and permits are secured.
4. The HEDRA may, at its sole discretion, consider an interest reduction application for a project which has been financed, secured city approvals and permits and is under way.
5. Final approval of the application will include plans and descriptions, the lender's letter, and City approvals. The interest reduction payment will be contingent upon project completion. The owner will provide

the staff copies of invoices showing payment and/or cancelled checks with a list of the work for which the payment was made. The payment will be made to the lender and the owner jointly. The lender will apply the payment to the loan.

6. On receipt of the payment the owner will sign an agreement, a note and execute a lien obligating the applicant to make the repayment when the subject property is sold, transferred or disposed of by the applicant. The repayment obligation will be secured by a lien recorded against the rehabilitated property. The amount of repayment is described in the attached copy of Minnesota Statutes 469.012 Subd 9.