

PLANNING AND ECONOMIC DEVELOPMENT COMMITTEE

09-0128R

REPLACEMENT

RESOLUTION AUTHORIZING AN AMENDMENT TO THE COMMUNITY DEVELOPMENT BLOCK GRANT AGREEMENT WITH MA & POP'S 4TH STREET MARKET, INC. AND THE EXECUTION OF A SATISFACTION OF MORTGAGE.

CITY PROPOSAL:

RESOLVED, that the proper city officials are hereby authorized to enter into a first amendment to the community development block grant agreement, substantially in the form of that on file in the office of the city clerk as Public Document No. _____, with Ma & Pops 4th Street Market, Inc., (agency) and Deyona Kirk, pursuant to which the city will accept \$20,000 from the sale of Deyona and Jamar Kirk's home, will release its mortgage lien on the home, and will require the agency and Deyona Kirk execute a promissory note in the amount of \$39,500.

FURTHER RESOLVED, that the manager of the city's community development division is hereby authorized to execute the satisfaction of mortgage upon the receipt of a cashier's check in the amount of \$20,000 and the execution of a promissory note in the amount of \$39,500 substantially in the form of that attached as Exhibit 1 to the amendment.

Approved:

Approved for presentation to council:

Department Director

Chief Administrative Officer

Approved as to form:

Approved:

Attorney

Auditor

STATEMENT OF PURPOSE: The agency is the owner of Ma & Pop's 4th Street Market. Deyona Kirk is the president of the agency. The agency secured a commercial loan from Members Cooperative Credit Union (MCCU) for the purchase of the inventory. However, due to the low collateral value of food inventory, MCCU's loan was contingent upon the agency securing a credit enhancement meeting MCCU's loan underwriting requirements.

In June of 2006, as part of an effort to ensure the ongoing presence of an accessible neighborhood grocery market within the Central Hillside, the agency entered into a community development block grant agreement pursuant to which the city CDBG program purchased a \$59,500 five-year certificate of deposit at MCCU in an amount that meeting the underwriting requirements when combined with the value of the inventory. A loan guaranty agreement between the city and MCCU linked the agency's loan performance with the certificate of deposit.

The city took a mortgage in the amount of \$59,500 on the Kirk's home in the event that the agency defaulted on the loan and MCCU utilized the CDBG loan guaranty. The mortgage lien had third priority after a first mortgage lien in favor of North Shore Bank First Mortgage in the amount of \$200,000 and a second mortgage line in favor of the housing and redevelopment authority of Duluth, Minnesota in the amount of \$17,900. At that time the Kirks home was valued at \$310,000 and therefore even with the city's position as a third mortgagee there was considered to be adequate collateral in the value of the house to secure the city's interest. The term of the mortgage lien was until June 30, 2011 or until the third party pledge agreement was released by MCCU. The agreement also required the agency to create one full-time job equivalent per \$20,000 of the certificate of deposit.

Recent economic pressures have caused the Kirks to sell their home into a very difficult market and after nearly a year they have found a willing buyer. However, the general downturn in the housing market has resulted in lower valuation and sale price (16 percent lower than the \$310,000) for their house resulting in the erosion of the city's collateral position. Therefore, after the first and second mortgage liens have been satisfied, \$29,000 will be remaining from the sale. Deyona Kirk has requested that the city accept \$20,000 from the sale proceeds in exchange for the satisfaction of the city's mortgage and has agreed to execute a promissory note in the amount of \$39,500 in favor of the city.