

BOARD OF ALDERMEN

ITEM NO. D(3)

AGENDA ITEM ABSTRACT

MEETING DATE: March 15, 2010

SUBJECT: Request to Consider a Second Loan Modification for Cycle 9 LLC

DEPARTMENT: TOWN MANAGER	PUBLIC HEARING: NO
ATTACHMENTS: A – Resolution B - Memo from Town Attorney C – Draft Loan Modification and Security Agreement	FOR INFORMATION CONTACT: Steve Stewart (918-7314) Bob Hornik (929-3905)

PURPOSE

The purpose of this agenda item is for the Board to consider a request from Cycle 9 LLC to modify their existing revolving loan agreement.

INFORMATION

The Board of Aldermen approved a loan to Cycle 9 LLC in the amount of \$\$68,540 for a term of seven years at a 3% annual interest rate in March 2009. Subsequently, the Board of Aldermen approved a loan modification in December 2009 to temporarily lower the payments owed by Cycle 9 LLC. The applicant has requested a second modification to their loan agreement. The applicant is proposing to sell the property currently used to secure the loan, and use a portion of the proceeds from the sale of said property to pay down the existing loan balance by \$28,000. The remaining loan balance of \$26,127.36 will then only be secured by the equipment and inventory of the business. Because the proposed substitute security (equipment and inventory) is a much weaker security than the property that is being replaced, Staff recommends that if the loan modification is made, it should be for a period of 4 years at a 3.25% interest rate. This would still result in a significantly lower monthly payment for the applicant. The current monthly payment amount for this loan is \$906.64. If the Board approves the loan modification at the recommended terms, the new payment amount would be \$ 581.20.

The Economic Sustainability Commission reviewed this request on March 9, 2011. The ESC's recommendations were as follows:

1. They expressed a strong preference that the loan be paid off completely under the circumstances
2. Alternatively, they would prefer that the outstanding balance be secured by substitute real property (the preferred form of security)
3. The ESC does NOT recommend securing the modified loan with something other than real property
4. The ESC doesn't recommend a higher interest rate like would be expected for a weaker security because the purpose of the loan is to support this business, not make profits for the loan fund.

FISCAL AND STAFF IMPACT

The Town Attorney's Office and Town Manager's Office will be involved in finalizing the new documents, if the request is approved.

RECOMMENDATION

Staff recommends that the Board consider the request from Cycle 9 LLC.