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**To:** Mayor Nelson and Members of the City Council

**From:** Daniel R. Buchholtz, MMC, Administrator, Clerk/Treasurer

**Date:** March 4, 2021

**Subject:** Amendment to Funding Loan Agreement in connection with Multifamily Revenue Funding Note, Series 2017A and Taxable Multifamily Housing Revenue Funding Note, Series 2017B (Legends of Spring Lake Park project)

**Background:**

The City previously issued the above referenced obligations (the “Funding Notes”) pursuant to a Funding Loan Agreement dated as of July 1, 2017 (the “Original Funding Loan Agreement”), by and among the City, Citibank, N.A. (the “Citibank”), and U.S. Bank National Association, as the Fiscal Agent. Citibank purchased the Funding Notes and the City loaned the proceeds thereof to Spring Lake Park Leased Housing Associates I, LLLP, a Minnesota limited liability limited partnership, to finance the costs of a multifamily housing residential rental project in the City known as “Legends of Spring Lake Park.”

Citibank has recently begun utilizing a program of grouping a mix of loans made for affordable housing developments that are now completed, occupied, and performing well, then selling investors shares in that loan portfolio (i.e. securitization). By selling shares in a loan portfolio to other investors, Citibank frees up some of their cash that can then be used to originate new affordable multi-family housing loans.

While the concept of securitization and loan transfers was included in the Original Funding Loan Agreement, the original language did not contemplate the securitization structure Citibank is proposing to use which, among other things, would permit them to sell securitized interests in the loan portfolio to any investor as long as the investment gets a BBB- or better rating. Specifically, the amendment they are requesting allows for the following:

- In addition to transfers of interests in the Funding Notes to the entities currently permitted under the Original Funding Loan Agreement, the requested changes would permit transfers of interests in the Funding Notes to (1) a governmental entity or (2) a trust or custodial arrangement established by Citibank, or an affiliate, or a governmental entity, as long as any beneficial interests that are issued and secured by the loans are either (a) purchased by a “qualified institutional buyer” (as defined under securities laws) or (b) rated BBB- or higher (investment grade) – in which case any investor could invest.

- Removing the requirement that any investor hold at least 15% of the loan amount (the “Minimum Beneficial Ownership Amount”) for permitted transfers; and
- Removing the requirement for investor letters (also referred to as transferee representations) for permitted transfers.

**Recommended Action:**

The City’s Bond Counsel, Kennedy & Graven, has reviewed the proposed Amendment to Funding Loan Agreement (the “Amendment”), and finds that the changes are consistent with provisions now being included routinely in more recent transactions. Bond Counsel recommends the City Council’s approval of Resolution No. 21-13 authorizing the City’s execution of the Amendment and the changes described above.

If you have any questions, please do not hesitate to contact me at 763-784-6491.