Don't Risk Lyon Park: Say "No" to a $600,000 Loan

VOTE on November 12 at 7:30 pm

Background: The Lyon Park Community Center is planning to spend over $1 million on building additions but it has only $450,000 to pay for it. The Community Center has obtained a $600,000 variable-rate loan to cover the difference, risking the entire park as collateral.

Repaying the loan will cost <u>$680,000-800,000, primarily from new donations</u> from YOU or else **LYON PARK COULD BE LOST TO FORECLOSURE**.

Action: Tell the Community Center what you think by attending the meeting on **Nov 12, at 7:30pm**. VOTE YES on the motion:

The Lyon Park Citizens Association requests that the Community Center Board of Governors:
1. Proceed with construction funded by the $450,000 cash-on-hand without loans; 2. Fund additional construction based on community donations.

How to Vote: Attend the Citizens Association Meeting and vote. Each adult in a household has one vote and the membership is only $10 per household, which can be paid at the meeting.

Reason for this motion: Over the last decade, the Community has worked hard to raise $412,000 in donations for needed renovations. Instead of spending the money we currently have on more modest renovations, the Community Center wants to spend over $1 million on a grander plan. The Community Center has obtained a $600,000 loan with $43,000 yearly mortgage payments for 10 years and a $370,000 balloon payment due in 11 years. The Community Center risks default and the bank taking over operations.

Why can't we renovate with just the $450,000 cash-on hand? Why can't a sunroom be added in a second phase? Who is going to pay the $680,000-800,000 or more to satisfy the loan?

Frequently Asked Questions

What are the loan terms? The $1.2 million renovation project requires a $550,000-$600,000 construction loan.

Loan terms:

- 4.5 % years 2-6; variable reset year 7
- $43,000 yearly payments
- $372,000 balloon payment year 11
    - **Interest rates are at all time historic lows and likely will increase.**

Income history

- $3,000 net operating income (rent minus expenses)
- $9,000 from community fundraisers (e.g., spring fair, chili dinners, etc.).
    - **The remainder must be paid by YOU!**

How will the Community Center raise $550,000+ in new donations? Unfortunately, there is no plan in place to raise the new donations. The business plan assumes that the average yearly donation amount over the last 6 years will be repeated for an additional 8 years. <u>$550,000 new donations required versus $412,000 in donations past 6 years</u>. (Total donations would be $962,000.) There is no guarantee that we could raise this money.

If there is $450,000 cash-on-hand, why not declare victory and renovate with money on hand? Refreshing the building and creating modern bathrooms could be done using cash-on-hand. Similarly, phased construction could be undertaken for additional projects. The Community Center, however, has refused to consider significant modifications to its $1.2 million project or phased construction.

Must construction start immediately? No. A short pause will allow time for the Community Center to work on a fundraising plan and to plan phased construction that would better serve the neighborhood and avoid loans.

What happens in case of default? The interest rate automatically increases by 2.00% for the life of the loan. Cardinal Bank has stated they will take over operations of the Community Center and run it for the bank's benefit.

Is the park at risk? Yes. The loan documents clearly grant the bank authority to foreclose on the property which has been used as collateral. The Community Center states that there is a verbal agreement with the bank not to foreclose in the event of default. However, verbal representations are not binding.

Can the bank sell the loan? Yes. A new loan holder would not honor any unwritten understandings and would likely not care about community goodwill.

What about the "loan guarantors"? No one is guaranteeing the loans, but instead some community members have offered to provide replacement loans in the future. These offers do not cover the full amount of the bank loan. Additionally, no one is placing money in escrow or putting homes up as collateral. More importantly, replacement loans do not solve the problem of how to pay back the loan.

Will rents go up? Probably. Repayment of the loan assumes increasing the net operating income.

Does the budget include contingent construction costs? No. At best, the business plan allows for $39,000 of unforeseen costs for the $1.2 million budget.

What is plan B? There is no plan B if fundraising lags or net income is not increased.

Is the building falling down? No. The minimal routine repairs that are needed do not require a $1.2 million budget or numerous additions.

Is the loan driving the need for fundraising and higher rents? The loan will fundamentally change the character of the Community Center and demand significant fundraising for the next 8-20 years.

Why is there a great range in payback amounts? The lower $680,000 derives from the LPCC's rosy business plan that assumes fundraising ceases after 8 years and the loan is paid off. The $800,000 comes from the loan documents and assumes the $370,000 balloon payment is somehow paid off. In reality both fundraising and loan payments might continue for years or decades beyond 2025.

Is this an 11th hour complaint? No, the Community Center first announced the $600,000 construction loan in June 2014. The community has never approved a $1.2 million renovation or the $600,000 loan. Five years ago, the community was assured that the cost would be $550-650,000 and that donations would cover renovation costs. Neither assurance has been met.

Did a special committee already determine the loan was risky? Yes. A special committee of the Citizens Association after reviewing all the bank documents and the Community Center's business plan reached this conclusion: "If we proceed with construction and the current debt funding plan without a formal fundraising plan or some other contingency to make default less of a risk, there is a likelihood that we could face cash shortfalls and ultimately default on the loan. If that happens, we should expect Cardinal Bank to step in and assume operations in a way to make the facility generate the income to repay their loan. Their approach is likely to run counter to the community's desires."

Whom can I contact with questions? Contact the following individuals:

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