

City of Ramsey
Agenda
Housing and Redevelopment Authority (HRA)
Work Session
Tuesday February 28, 2012
5:00 pm
Lake Itasca Room, 7550 Sunwood Drive NW

- 1. Call to Order**
- 2. Topics for Discussion**
 1. Review Sale of Bonds for The Residence at the COR - Flaherty and Collins, Debt Subordination Agreement for PNC Bank Financing and Project Update
- 3. Executive Director's Report**
- 4. Commissioner Input**
- 5. Adjournment**

HRA Work Session**2. 1.****Meeting Date:** 02/28/2012**Submitted For:** Heidi Nelson**By:** Heidi Nelson, Administrative Services

Information**Title:**

Review Sale of Bonds for The Residence at the COR - Flaherty and Collins, Debt Subordination Agreement for PNC Bank Financing and Project Update

Background:

On September 27th, 2011 the HRA and City Council approved a Purchase Agreement and Development Agreement with Flaherty and Collins for the construction of a 230-unit market rate apartment project in the COR at Ramsey. The project will wrap the existing and newly expanded parking facility and complete a significant component of the 'transit village' in The COR.

The development and purchase agreements included project financing by the HRA in the amount of a \$1.3 million note and a \$6.85 million dollar note. As the HRA will recall, the private financing in this project being provided by PNC Bank for \$20.45 million, included contingencies with regard to the construction of the Ramsey Station on the Northstar Commuter Rail. Those contingencies have now been satisfied with the contracts for the construction of the Ramsey Station being let in late January. Ground breaking for the Ramsey Station is scheduled for March 27, 2012.

Additionally, at the September 27, 2011 meetings of the HRA, the public hearing for the sale of the bonds associated with the financing being provided by the HRA was held. Stacie Kvilvang of Ehlers, the HRA's financial advisor for this project, will be present at the HRA work session to review the action requested at the HRA meeting later this evening to call for the sale of the bonds on April 24th and begin the required process for that sale.

At the time of the approval of the Development and Purchase Agreements, it was noted that an agreement may be necessary between PNC bank and the HRA with regard to the financing being provided by each entity. Over the past several months, the Development Management Team and the HRA's legal counsel, Mr. Tom Bray, have been in negotiations with PNC Bank and Flaherty and Collins regarding the Debt Subordination Agreement. The Development Team and legal counsel have worked to ensure that the HRA's rights under its loan terms and development and purchase agreements were not substantially altered under the subordination agreement. A memo has been prepared by HRA legal counsel that outlines the HRA's rights and remedies under the subordination agreement, it is attached for HRA review. Mr. Tom Bray will be present for the HRA work session to review the terms of the subordination agreement.

Flaherty and Collins will proceed to close on their private financing for the project in early March and the closing on the land with the HRA would occur on March 23, 2012. The land sale proceeds from this transaction are \$750,000. On Thursday, February 23rd, plans were received by the Ramsey Building Division for review which begins the process to satisfy a requirement prior to closing under the development agreement with regard to our review and acceptance of plans for the project. Ground breaking for The Residence at the COR project has been tentatively scheduled for Tuesday, April 10, 2012 at 3:00 p.m.

Notification:

Public Hearing for the bond sale was completed on September 27, 2011.

Recommendation:

Receive report from HRA legal counsel Tom Bray and Financial Advisor Stacie Kvilvang with regard to Debt Subordination Agreement and beginning the process for the sale of bonds, respectively.

Funding Source:

TIF 14 bond sale proceeds and TIF 1.

Council Action:

Receive report from HRA legal counsel Tom Bray and Financial Advisor Stacie Kvilvang with regard to Debt Subordination Agreement and beginning the process for the sale of bonds, respectively.

Attachments

Bray memo re Subordination Agreement

Debt Subordination Agreement

Bond Presale Report -- Ehlers

Temp Bond Schedule

Option 10 YR Bond with early call

Form Review

Inbox	Reviewed By	Date
Heidi Nelson (Originator)	Heidi Nelson	02/23/2012 03:08 PM
Form Started By: Heidi Nelson		Started On: 02/23/2012 11:37 AM
	Final Approval Date: 02/23/2012	

MEMORANDUM

TO: The Board of Commissioners and the Executive Director of The Housing and Redevelopment Authority in and for the City of Ramsey, Minnesota

CC: Kurt Ulrich, City Administrator
Stacie Kvilvang, Ehlers, Inc.
Mary Ippel, Briggs and Morgan, P.A.

FROM: Thomas L. Bray

DATE: February 22, 2012

RE: **The Housing and Redevelopment Authority in and for the City of Ramsey, Minnesota--Purchase Agreement and Development Agreement with F&C Ramsey, LLC**
Our File No.: 12952.47

I. BACKGROUND

On September 27, 2011 the Board of Commissioners ("Board") of The Housing and Redevelopment Authority in and for the City of Ramsey, Minnesota (the "HRA") approved a Purchase Agreement for the sale of Lot 3, Block 1, COR ONE, Anoka County, Minnesota (the "Property") to F&C Ramsey, LLC ("F&C Ramsey") (the "Purchase Agreement") and approved a Development Agreement among and between the HRA, the City of Ramsey and F&C Ramsey (the "Development Agreement"). The Development Agreement obligates the HRA to make a \$1.42 MM loan and an approximately \$6.825 MM loan (collectively, the "HRA Loans") to F&C Ramsey Member, LLC ("F&C Member"). F&C Ramsey intends to assign all of its rights, except the right to receive the TIF Note, and all of its obligations under the Purchase Agreement and the Development Agreement to F&C Ramsey Apartments, LLC ("F&C Apartments") before the Property closing or the PNC Loan closing. F&C Ramsey and F&C Member own 100% of the membership interests in F&C Apartments.

F&C Ramsey's obligations under the Purchase Agreement and Development Agreement are contingent upon the closing of an approximately \$20.475MM loan from PNC Bank, National Association ("PNC") to F&C Ramsey Apartments (the "PNC Loan"). As a condition of the loan, PNC requires that F&C Apartments, PNC, the HRA and the City sign a Debt Subordination Agreement (the "Debt Subordination Agreement"). Neither the requirement for nor the terms of

the Debt Subordination Agreement were known, when the HRA approved the Purchase Agreement and the Development Agreement, so the HRA's Board could not approve and authorize the execution of the Debt Subordination Agreement at that time. HRA staff is submitting the Debt Subordination Agreement to the Board for consideration at the Board's February 28, 2012 meeting.

This Memorandum describes the HRA's remedies if F&C Apartments defaults under the Development Agreement or if F&C Member defaults under either the Loan Agreement to be executed by the HRA and F&C Member (the "HRA Loan Agreement") or either of the two Promissory Notes that F&C Member will execute in favor of the HRA to evidence the HRA Loans (the "HRA Notes") and, where applicable, describes the impact of the Debt Subordination Agreement on those remedies.

II. RIGHT OF REVERTER

The Purchase Agreement and Development Agreement provide for the HRA's conveyance of the Property to the "Developer" (initially F&C Ramsey but, following the assignment to F&C Apartments, F&C Apartments) subject to a right of reverter. If the Developer does not complete construction of the project on or before the date 27 months from the date of the conveyance, the HRA may commence an action in Anoka County District Court seeking a court order transferring title to the Property and any improvements thereon back to the HRA. In the Development Agreement the HRA agreed to subordinate its right of reverter to the lien of the mortgage securing the PNC Loan (the "PNC Mortgage"), so if PNC forecloses its mortgage and the Developer does not redeem the Property from foreclosure, the HRA must either redeem the Property from foreclosure by paying off the PNC mortgage or the HRA's right of reverter will be extinguished.

In the Debt Subordination Agreement, the HRA agrees that the HRA's enforcement of the right of reverter is a non-curable default under the terms of the PNC Mortgage. The HRA also agrees that if F&C Apartments defaults in the performance of its obligations to PNC under the PNC loan documents, the HRA will not oppose PNC's efforts to have a receiver appointed for the Property and will not seek to have the receiver discharged unless PNC fails to commence foreclosure proceedings within 6 months following the appointment of the receiver, PNC commences a foreclosure but fails to schedule a sheriff's sale within a reasonable period of time or the HRA redeems the Property from a foreclosure of the PNC mortgage.

III. ENFORCEMENT OF THE DEVELOPMENT AGREEMENT

The Developer's failure to complete the project with 27 months of closing is a default under the Development Agreement. In addition, a default by F&C Ramsey under the Loan Agreement or the HRA Notes is a default under the Development Agreement. Although the HRA has the right to sue the Developer to recover damages resulting from a default, it would be difficult for the HRA to articulate the monetary damages the HRA would suffer from the Developer's failure to complete the project on time. The more significant remedy available to

the HRA is the right to suspend performance of the HRA's obligation to issue the TIF Note to F&C Ramsey or, if the HRA has already issued the TIF Note, the right to terminate and rescind the TIF Note.

The Debt Subordination Agreement does not impact the HRA's ability to terminate the TIF Note based on a default under the Development Agreement.

Under the terms of the Development Agreement, the HRA has agreed that if PNC forecloses the PNC Mortgage, PNC may elect to either (i) treat the PNC Mortgage as being prior to the Development Agreement in which case the foreclosure would extinguish the Development Agreement and the TIF Note (but not the Assessment Agreement); or (ii) treat the Development Agreement as being prior in which case the Development Agreement would survive a foreclosure, PNC would be subject to all the terms of the Development Agreement and if PNC complies with the terms of the Development Agreement, PNC would be eligible to receive the TIF Note payments.

IV. ENFORCEMENT OF THE LOAN AGREEMENT AND THE HRA NOTES

Under the terms of the HRA Loan Agreement and the HRA Notes, the HRA may sue F&C Member for money damages if F&C Member fails to make payments due to the HRA under the HRA Notes or otherwise defaults under the HRA Loan Agreement. As we advised the Board during the Board's consideration of the Development Agreement, this right is of questionable value because it is unlikely that F&C Member will have any assets other than membership interests in F&C Apartments (and those membership interests will be subject to a security interest in favor of the HRA as described in Section V below).

The Debt Subordination Agreement imposes the following restrictions on F&C Member's right to make payments to the HRA, the HRA's right to receive payments from F&C Member and the HRA's right to sue F&C Member if those payments are not made:

1. So long as F&C Apartments is not in default under the terms of the PNC Loan documents,

(a) F&C Apartments may make annual distributions of "Net Cash Flow," as defined in the Development Agreement, to F&C Member, and F&C Member may make payments due to the HRA under the HRA Notes. If F&C Apartments defaults under the PNC Loan documents or if a distribution to F&C Member would cause F&C Apartments to violate covenants in the PNC Loan documents, F&C Apartments may not make distributions to F&C Member and F&C Member would have funds to pay the HRA;

(b) the members of F&C Member may make additional capital contributions to F&C Member and F&C Member may use those capital contributions to prepay amounts due under the HRA Notes; and

(c) F&C Member may obtain “take out” mezzanine financing and use the proceeds of such financing to pay amounts due under the HRA Notes provided PNC determines, in its reasonable discretion, that the terms of the “take out” mezzanine financing are not less favorable to PNC than the terms of the HRA financing;

2. Before PNC has made its first advance to F&C Apartments and after the PNC Loan has been paid in full (principal, interest and any fees or reimbursements), the HRA may sue F&C Member for defaults under the HRA Loan Agreement or the HRA Notes;

3. The Debt Subordination Agreement prohibits the HRA from suing F&C Member after PNC’s first advance and before PNC has been paid in full, but it does not prevent the HRA from foreclosing the Membership Interest Pledge described below.

If the HRA attempts to enforce the HRA Loan Agreement or the HRA Notes in violation of the Debt Subordination Agreement, PNC may seek an injunction to stop the HRA. If F&C Member makes or if the HRA receives payments other than as described in Section 1 above or in Section VI below, the Debt Subordination Agreement requires the HRA to pay those amounts over to PNC for application to the PNC Loan.

V. MEMBERSHIP PLEDGE AGREEMENT

The HRA Loan Agreement obligates F&C Ramsey and F&C Member to grant the HRA a first lien security interest in their membership interests in F&C Apartments, and the Debt Subordination Agreement expressly recognizes the HRA’s right to foreclose that security interest and become the owner of F&C Apartments if F&C Member defaults under the HRA Loan Agreement or the HRA Notes. We assume that if the HRA forecloses its security interest, PNC will, if it has not already done so, commence foreclosure of the PNC Mortgage and seek to have a receiver appointed to complete construction and/or operate the Project until the foreclosure is complete. Unless the HRA can persuade PNC to enter into some type of workout agreement to allow the HRA to complete construction and/or operate the project, the affect of the HRA’s foreclosure of its security interest would likely be to trigger a foreclosure of the PNC Mortgage and give HRA the right to redeem the property from that foreclosure. Note, however that because the HRA does not have a mortgage on the Property, the HRA cannot effectively prevent F&C Apartments from conveying the Property to PNC pursuant to a deed in lieu of foreclosure a (although such a conveyance would be a default under the Development Agreement and allow the HRA to terminate the TIF Note).

VI. GUARANTIES

Under the terms of the Development Agreement, F&C Member is required to cause Flaherty & Collins Construction, Inc. to execute a corporate guaranty guaranteeing the full performance of F&C Member’s obligations and the payment of the amounts due under the terms of the Promissory Note evidencing the \$1.42 MM loan from the HRA to F&C Member and is obligated to deliver a personal guaranty of David Flaherty guaranteeing the full performance of

and the payment of the amounts due under the Promissory Note evidencing the \$6.825 MM loan from the HRA to F&C Member (the “HRA Guaranties”). Under the terms of the HRA Guaranties, the HRA may commence an action against the guarantors if F&C Member fails to repay the HRA loans when and as due or otherwise defaults under the HRA Loan Agreement or the HRA Notes. The Debt Subordination Agreement restricts the HRA’s right to enforce the guaranties as follows:

1. The HRA retains the unrestricted right to enforce the guaranties at all times prior to PNC’s first advance and after PNC has been paid in full.

2. After PNC’s first advance and prior to PNC’s receipt of payment in full, the HRA retains the unfettered right to enforce the personal guaranties if:

a. PNC voluntarily satisfies or releases the Mortgage;

b. PNC releases the guarantors from the terms of PNC’s guaranties or otherwise agrees not to enforce the PNC guaranties(which could happen in a deed in lieu situation); or

c. PNC forecloses the PNC mortgage and the amount bid at the foreclosure sale equals the amount owed to PNC; and

3. If After PNC’s first advance and prior to PNC’s receipt of payment in full, F&C defaults in the performance of its obligations under the PNC loan documents and PNC either accepts a deed in lieu of foreclosure without releasing or agreeing not to enforce the PNC guaranties, or PNC forecloses but the amount PNC receives from the foreclosure sale is less than the amount that PNC owes, either PNC or the HRA may commence enforcement of their rights under their respective guaranties but only after providing the other party with 30 days prior written notice and subject to the requirement that any resulting enforcement action will be taken jointly by PNC and the HRA and the proceeds from such joint action will be allocated between PNC and the HRA on a pro rata basis based on the then-outstanding balances of the PNC loan and the HRA loans. If notice of an enforcement action is given and the other party elects not to proceed with enforcement then the party providing the notice is free to pursue collection under its own guaranties; and

4. If PNC and F&C Apartments amend the terms of the PNC loan documents to extend the maturity date of the PNC loans beyond March 1, 2018, the HRA may commence an action to enforce its guaranties but enforcement is subject to the same joint enforcement provisions described in Subsection 3 above.

As described in Section IV with respect to the HRA’s right to obtain a judgment against F&C Member, if the HRA obtains payments from the guarantors that are prohibited by the terms of the Debt Subordination Agreement, the Debt Subordination Agreement requires that the HRA

remit the amounts collected in violation of the terms of the Debt Subordination Agreement to PNC for application to the PNC debt.

VII. CONCLUSIONS

In general, the Debt Subordination Agreement is intended to ensure that if the project struggles or fails and there is not enough money to pay both PNC and the HRA that PNC is made whole before the HRA. In that respect, it does not significantly change the HRA's position. The HRA is and always has been a junior creditor in this transaction. The Debt Subordination Agreement does not impact the rights of the City and the HRA to enforce the Development Agreement as drafted and to terminate the TIF Note if the Developer does not perform under the Development Agreement. Likewise, the Debt Subordination Agreement does not impact the HRA's right to enforce the Membership Pledge Agreement, although, with or without the Debt Subordination Agreement, enforcement of the Membership Pledge Agreement is not a remedy is likely to result in direct cash recovery if the project is not performing. It could, however, give the HRA a redemption right which, if exercised, could allow the HRA to capture any value in excess of the PNC debt.

The most significant impact of the Debt Subordination Agreement is to prevent the HRA from suing the guarantors if there is a default under the HRA Notes between the time PNC first advances loan proceeds and when PNC is paid off or elects to foreclose its mortgage. This eliminates one tool the HRA could use to put pressure on F&C and the Guarantors to address the defaults under the HRA Notes. It is important to remember, however, that, in the first instance, the HRA, as a junior creditor, is far more likely to seek to maximize their recovery by negotiating with F&C and modifying the repayment terms than by moving to enforce the HRA's legal remedies, and, if those negotiations fail, two other tools, termination of the TIF Note and foreclosure of the Membership Pledge Agreement, remain available to the HRA. Another significant impact, which is more difficult to quantify, is the fact that, once PNC has advanced loan proceeds to F&C, any legal action by the HRA to enforce the Loan Agreement or the Guaranties in effect becomes a three party action and any disputes between the HRA and PNC regarding the meaning or effect of the Debt Subordination Agreement get added to the list of issues that may need to be resolved through litigation. That can certainly have an impact on the time and money the HRA may have to spend to enforce its rights.

BRIGGS AND MORGAN

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DEBT SUBORDINATION AGREEMENT

THIS DEBT SUBORDINATION AGREEMENT (this "Agreement") is entered into as of the ___ day of _____, 2012, by and among **PNC BANK, NATIONAL ASSOCIATION**, a national banking association (the "Bank"), **F&C RAMSEY APARTMENTS, LLC**, an Indiana limited liability company (the "Borrower"), **F&C RAMSEY MEMBER, LLC**, an Indiana limited liability company (the "Mezzanine Borrower"), **THE HOUSING AND REDEVELOPMENT AUTHORITY IN AND FOR THE CITY OF RAMSEY, MINNESOTA**, a public body politic and corporate under the laws of the State of Minnesota (the "Creditor"), and the **CITY OF RAMSEY, MINNESOTA**, a home rule charter city organized and existing under the constitution and laws of the State of Minnesota (the "City").

RECITALS

A. Bank has established or is establishing certain credit facilities with Borrower as evidenced by certain documents, instruments and agreements entered into between Bank and Borrower from time to time (collectively, the "Loan Documents"), including without limitation a certain construction loan in the maximum principal amount of Twenty Million Four Hundred Seventy-Five Thousand and 00/100 Dollars (\$20,475,000.00) (collectively, the "Loans") pursuant to a certain Loan Agreement by and between Borrower and Bank dated _____, 2012 (the "Loan Agreement").

B. The Loans are secured in part by a first priority mortgage lien on approximately four (4) acres of real property located on U.S. Highway 10 in Ramsey, Anoka County, Minnesota, as more particularly described in Exhibit A attached hereto and made a part hereof, together with the improvements now or hereafter erected thereon (the "Real Estate"), which has been transferred by Creditor to Borrower concurrently herewith pursuant to the terms of a Purchase Agreement dated of even date with the Loan Agreement executed by and among Creditor, the City and F & C Ramsey, LLC ("Ramsey"), under which all rights and obligations of Ramsey have been assigned to Borrower (the "Purchase Agreement").

C. The Loans are further secured in part by certain guaranties (the "Bank Guaranties") executed by David M. Flaherty and Flaherty & Collins Construction, Inc. (together, the "Guarantors").

D. The proceeds of the Loans shall be used solely for the construction of a two hundred thirty (230) -unit luxury midrise apartment building with three thousand (3,000) square feet of retail space on the Real Estate (the “Project”).

E. Creditor, the City, Ramsey and Mezzanine Borrower are parties to that certain Development Agreement dated of even date with the Loan Agreement (the “Development Agreement”), under which all rights and obligations of Ramsey have been assigned to Borrower, except the right to require the City to deliver the TIF Note (as defined in the Development Agreement) to Ramsey.

F. Mezzanine Borrower holds a ninety percent (90%) membership interest in Borrower.

G. Creditor has extended or is extending to Mezzanine Borrower certain loans, advances and extensions of credit (the “Mezzanine Loans”), as evidenced by a certain note or notes dated on or about the date hereof (collectively, the “Creditor Documents”), the proceeds of which will be contributed into Borrower by Mezzanine Borrower.

H. The Mezzanine Loans are secured in part by a pledge, collectively, by Mezzanine Borrower and Ramsey to Creditor of one hundred percent (100%) of the membership interests in Borrower (the “Membership Pledge”).

I. The Mezzanine Loans are also further secured in part by certain guaranties (the “Creditor Guaranties”) executed by the Guarantors.

J. Bank and Creditor hereby desire to set forth the respective rights and obligations each has as against the other with respect to Borrower and Mezzanine Borrower

NOW, THEREFORE, the parties hereto, intending to be legally bound, hereby agree as follows:

1. Definitions.

“Collateral” means any collateral now or in the future securing the Obligations, including, but not limited to, the first priority mortgage lien on the Real Estate and claims against either Guarantor of the Obligations and any collateral securing such Bank Guaranties.

“Guaranties” means, collectively, the Bank Guaranties and the Creditor Guaranties.

“Obligations” means all loans, advances, debts, liabilities, obligations, covenants and duties owing by Borrower to Bank or to any other direct or indirect subsidiary of The PNC Financial Services Group, Inc., in connection with the Loans as described in the Loan Agreement, of any kind or nature, present or future (including any interest accruing thereon after maturity or after the filing of any petition in bankruptcy, or the commencement of any insolvency, reorganization or like proceeding relating to Borrower, whether or not a claim for

post-filing or post-petition interest is allowed in such proceeding), whether direct or indirect (including those acquired by assignment or participation), absolute or contingent, joint or several, due or to become due, now existing or hereafter arising, whether or not: (i) evidenced by any note, guaranty or other instrument, (ii) arising under any agreement, instrument or document, (iii) for the payment of money, (iv) arising by reason of an extension of credit, opening of a letter of credit, loan, equipment lease or guarantee, (v) under any interest or currency swap, future, option or other interest rate protection or similar agreement, (vi) under or by reason of any foreign currency transaction, forward, option or other similar transaction providing for the purchase of one currency in exchange for the sale of another currency, or in any other manner, or (vii) arising out of overdrafts on deposit or other accounts or electronic funds transfers (whether by wire transfer or through automated clearing houses or otherwise) or out of the return unpaid of, or other failure of Bank to receive final payment for, any check, item, instrument, payment order or other deposit or credit to, deposit or other account, or out of Bank's non-receipt of or inability to collect funds or otherwise not being made whole in connection with depository transfer check or other similar arrangements; and any amendments, extensions or renewals and all costs and expenses of Bank incurred in the documentation, negotiation, modification, enforcement, collection or otherwise in connection with any of the foregoing, including reasonable attorneys' fees and expenses.

“Subordinated Debt” means any loans, advances, debts, liabilities, obligations, covenants and duties owing by Mezzanine Borrower to Creditor in connection with the Mezzanine Loans as described in the Creditor Documents, of any kind or nature, present or future, whether or not evidenced by any note, guaranty or other instrument, whether arising under any agreement, instrument or document, whether or not for the payment of money, whether arising by reason of an extension of credit, loan or guarantee or in any other manner, whether direct or indirect, absolute or contingent, joint or several, due or to become due, now existing or hereafter arising (including any such obligations purchased or otherwise acquired by Creditor), whether consisting of principal, interest, expense payments, management and consulting fees, liquidation costs, attorneys' fees and costs or otherwise.

2. Subordination.

(a) Subject to Section 3 hereof, Creditor hereby irrevocably subordinates and postpones the payment and the time of payment of all the Subordinated Debt and all claims and demands arising therefrom to the Obligations and directs that the Obligations be paid in full before the Subordinated Debt.

(b) Creditor shall: (i) make notations on the books of Creditor beside all accounts or on such other statements evidencing or recording any Subordinated Debt to the effect that such Subordinated Debt is subject to the provisions of this Agreement, (ii) furnish Bank, upon Bank's request from time to time, a statement of the account between Creditor and Mezzanine Borrower representing the Subordinated Debt and copies of each of Creditor Documents, and (iii) give Bank, upon its request, full and free access to Creditor's books pertaining only to such accounts with the right to make copies thereof. Each and every Creditor Document shall bear a legend as set forth in Section 16(b) hereof.

3. Payments to Creditor. Notwithstanding the provisions of Section 2(a) hereof or any other provision of this Agreement, so long as (i) Borrower is in compliance with all financial covenants and reporting requirements contained in the Loan Documents; (ii) no other Event of Default (as defined in the Loan Agreement) has occurred or exists beyond any applicable notice and grace period; and (iii) a payment hereunder shall not give rise to or result in a breach of any affirmative or negative covenant contained in the Loan Agreement or any other Event of Default, Borrower may make annual distributions to Mezzanine Borrower in amounts equal to, and Mezzanine Borrower may pay to Creditor, the Net Cash Flow (as defined in the Development Agreement) for the immediately preceding calendar year, for regularly scheduled payments of principal and/or interest, when due, on the Subordinated Debt (which shall not include any payments due or past due as a result of any acceleration of the Subordinated Debt) and, to the extent Net Cash Flow exceeds the scheduled payment amounts, prepayments of principal on the Subordinated Debt. Additional prepayments of principal on the Subordinated Debt, default interest thereon and/or costs and expenses shall be permitted or made only in accordance with the terms of Section 9.29 of the Loan Agreement. After the occurrence and during the continuance of an Event of Default under the Loan Documents and following receipt by Creditor of written notice thereof from Bank to Creditor, Mezzanine Borrower shall not make, and Creditor shall not receive, any direct or indirect payments of principal, interest, fees or expenses under the Subordinated Debt.

4. Security for Subordinated Debt. The Subordinated Debt is secured by the Membership Pledge and the guarantee of Guarantors pursuant to the Creditor Guaranties. Mezzanine Borrower and Borrower shall not grant and Creditor shall not take any further lien on or security interest in any Collateral, other than the guarantee of Guarantors, or any other of Mezzanine Borrower's or Borrower's property, now owned or hereafter acquired or created, without the prior written consent of Bank.

5. Standby Limitation. Notwithstanding any breach or default by Mezzanine Borrower under the Creditor Documents, following Bank's first advance of funds to Borrower under the Loan Documents, which shall not be made until Bank has received certification from Borrower and/or Creditor of (i) the cash equity injection from the members of Borrower in the amount of One Million Dollars (\$1,000,000), and (ii) the cash equity injection from Mezzanine Borrower's contribution of the full amount of the Mezzanine Loans (the "First Advance"), Creditor shall not at any time or in any manner: (a) foreclose upon, take possession of, or attempt to realize on any Collateral or proceed in any way to enforce any claims it has or may have against Mezzanine Borrower under the Subordinated Debt and Creditor Documents, or (b) contest, protest or object to any action taken by Bank under the Loan Documents or otherwise, unless and until the Obligations have been fully and indefeasibly paid and satisfied in full. Nothing herein shall prevent Creditor from taking action at any time with respect to the Membership Pledge or the Creditor Guaranties (pursuant to Section 6 hereof) upon the occurrence and continuance of a default or event of default under the Creditor Documents.

6. Guaranties. As a condition to the extension of credit facilities to Borrower and Mezzanine Borrower, Bank and Creditor have each required that Guarantors execute the Guaranties. Notwithstanding anything herein or in the Guaranties to the contrary, Bank and Creditor hereby agree as follows with respect to enforcement of the Guaranties:

(a) Prior to the First Advance, Creditor may enforce its rights with respect to the Creditor Guaranties with prior written notice to Bank. All proceeds collected in connection with any such action taken by Creditor against a Guarantor shall be retained by Creditor and used to reduce the outstanding principal balance of the Subordinated Debt.

(b) Upon the First Advance, Creditor shall not seek to enforce the Creditor Guaranties until the earlier of the following to occur:

- (i) Bank voluntarily satisfies or releases the Mortgage (as defined in the Loan Agreement);
- (ii) Bank releases Guarantors or agrees not to enforce the Bank Guaranties;
- (iii) Bank forecloses the Mortgage and the purchaser at the foreclosure sale (whether it be Bank or a third party) bids an amount equal to or greater than either (x) the amount that Bank would be entitled to credit bid at the foreclosure sale (in a foreclosure by action), or (y) the amount of Bank's judgment (in a foreclosure by action);
- (iv) Bank accepts a deed in lieu of foreclosure from Borrower without releasing or agreeing not to enforce the Bank Guaranties;
- (v) Bank forecloses the Mortgage and the amount bid at the foreclosure sale (whether it be by Bank or a third party) is less than either (x) the amount that Bank would be entitled to credit bid at the foreclosure sale (in a foreclosure by action), or (y) the amount of Bank's judgment (in a foreclosure by action); or
- (vi) Bank extends the final maturity date of the Loans to a date that is later than March 1, 2018.

Upon the occurrence of (i), (ii) or (iii) above, Creditor shall thereafter have an unfettered right to enforce the Creditor Guaranties with prior written notice to Bank. Upon the occurrence of (iv), (v) or (vi) above, either Bank or Creditor may thereafter enforce its rights with respect to the Guaranties only after providing thirty (30) days prior written notice to the other party, and any resulting action taken against a Guarantor shall be a joint collection action by Bank and Creditor. All proceeds from such joint action shall be allocated to Bank and Creditor on a pro rata basis based on the then-outstanding balances of the Loans and the Mezzanine Loans, respectively. In the event that either Bank or Creditor chooses to not join the collection action within thirty (30) days after receipt of such written notice, the other party may thereafter pursue such Guarantor individually and retain all proceeds collected in connection with such action.

7. Subordination and Standstill of Right of Reverter. Notwithstanding anything to the contrary contained in the Limited Warranty Deed for the Real Estate executed and delivered by Creditor to Borrower of even date herewith (the “Deed”), Creditor acknowledges and agrees that the right of reverter in its favor described in the Purchase Agreement and reserved in the Deed (the “Right of Reverter”) is hereby made junior, subject and subordinate to the rights of Bank under the Loan Documents. Following the First Advance and until Bank is paid in full with no obligation to make further advances under the Loans, Creditor agrees as follows:

(a) following an Event of Default, Creditor will not oppose Bank’s efforts to have a receiver appointed either before or after Creditor commences an action to enforce the Right of Reverter;

(b) Creditor’s enforcement of the Right of Reverter shall be a non-curable default under the Mortgage, such that if Creditor enforces the Right of Reverter, Creditor may not reinstate the Mortgage prior to a foreclosure sale by curing any other Event of Default; and

(c) in the event that Creditor exercises the Right of Reverter and becomes the owner of the Real Estate, Creditor may not seek to have the receiver discharged unless (i) Bank fails to commence foreclosure proceedings within six (6) months following the appointment of the receiver, (ii) Bank commences a foreclosure but fails to schedule and hold a sheriff’s sale within a reasonable time, if foreclosing by advertisement, or fails to prosecute a foreclosure by action and schedule and hold a sheriff’s sale within a reasonable time after obtaining a final judgment in the action, or (iii) Creditor redeems the property from foreclosure following a sheriff’s sale.

8. Notice of Default. Bank hereby agrees to notify Creditor of any Event of Default not waived and existing beyond any grace or cure period, and to give Creditor a reasonable period of time to cure any such defaults before Bank’s declaration of acceleration or commencement of any action to enforce its security interests under the Loan Documents. Creditor hereby agrees to notify Bank of any default under the Creditor Documents not waived and existing beyond any grace or cure period, and to give Bank a reasonable period of time to cure any such defaults before Creditor’s commencement of any action to enforce its security interests under the Membership Pledge or the Creditor Guaranties. Notwithstanding the foregoing, no failure by either party to provide such notice shall result in liability on the part of such party to the other or affect the other rights and obligations of the parties hereunder.

9. Bankruptcy/Probate of Borrower. In the event a petition or action for relief shall be filed by or against Borrower under any federal bankruptcy statute in effect from time to time, or under any other law relating to bankruptcy, insolvency, reorganization, receivership, general assignment for the benefit of creditors, moratorium, creditor composition, arrangement or other relief for debtors, Bank’s claim (secured or unsecured) against the assets or estate of Borrower for repayment of the Obligations shall be indefeasibly paid in full before any payment is made by Mezzanine Borrower to Creditor on the Subordinated Debt, whether such payment is in cash, securities or any other form of property or rights. Bank may, in its discretion, file a proof of claim for or collect Creditor’s claim first for the benefit of Bank to the extent of the unpaid

Obligations and then for the benefit of Creditor (but without creating any duty or liability to Creditor other than to remit to Creditor distributions, if any, actually received in such proceedings after the Obligations have been paid and satisfied in full) directly from the receiver, trustee, custodian, liquidator or representative of Borrower's estate in such proceeding. Borrower and Creditor shall furnish all assignments, powers or other documents requested by Bank to facilitate such direct collection by Bank.

10. Receipt of Payments by Creditor. Should Creditor directly or indirectly receive (i) any payment or distribution not permitted pursuant to Section 3 hereof, or (ii) any Collateral or proceeds thereof not permitted pursuant to Section 5 hereof, prior to the full and indefeasible payment and satisfaction of the Obligations and the termination of all financing arrangements between Bank and Borrower, Creditor will deliver the same to Bank in the form received (except for the endorsement or assignment of Creditor where necessary), for application to the Obligations in such order and manner as Bank may elect. Until so delivered, Creditor shall hold the same, in trust, for Bank as property of Bank, and shall not commingle such property of Bank with any other property held by Creditor. In the event Creditor fails to make any such endorsement or assignment, Bank, or any of its officers or employees on behalf of Bank, is hereby irrevocably authorized in its own name or in the name of Creditor to make such endorsement or assignment and is hereby irrevocably appointed as Creditor's attorney-in-fact for those purposes.

11. Bank's Rights.

(a) Creditor hereby consents that at any time and from time to time, without further consent of or notice to Creditor and without in any manner affecting, impairing, lessening or releasing any of the provisions of this Agreement, Bank may, in its sole discretion: (i) renew, compromise, extend, expand, postpone, waive, accelerate, terminate, change the payment terms of, or otherwise modify the Obligations or amend, renew, replace or terminate the Loan Documents or any and all other agreements now or hereafter related to the Obligations; (ii) extend credit to Borrower in whatever amount on a secured or unsecured basis or take other support for the Obligations and exchange, enforce, waive, sell, transfer, collect, adjust or release any such security or other support or any part thereof; (iii) apply any and all payments or proceeds of such security or other support and in any order or manner as Bank, in its discretion, may determine; and (iv) release or substitute any party liable on the Obligations, any guarantor of the Obligations, or any other party providing support for the Obligations. Notwithstanding anything in this Agreement to the contrary, during the term of this Agreement: (x) Bank shall not modify the Loan Documents to increase the aggregate maximum principal amount of the Loans; and (y) Creditor shall not modify the Creditor Documents to increase the aggregate maximum principal amount of the Mezzanine Loans.

(b) This Agreement will not be affected, impaired or released by any delay or failure of Bank to exercise any of its rights and remedies against Borrower or any Guarantor or under any of the Obligations or against any Collateral, by any failure of Bank to take steps to perfect or maintain its lien on, or to preserve any rights to, any Collateral by any irregularity, unenforceability or invalidity of any of the Obligations or any part thereof or any security or Guaranty therefor, or by any other event or circumstance which otherwise might constitute a

defense available to, or a discharge of, Borrower or a subordinated creditor. Creditor hereby waives demand, presentment for performance, protest, notice of dishonor and of protest with respect to the Subordinated Debt and the Collateral and notice of acceptance of this Agreement.

(c) Nothing in this Agreement will obligate Bank to grant credit to, or continue financing arrangements with, Borrower.

12. Continuing Agreement. This is a continuing agreement and will remain in full force and effect until all of the Obligations and all of Creditor's obligations and undertakings to Bank have been fully performed and indefeasibly satisfied and until all the Loan Documents have been terminated. This Agreement will continue to be effective or will be automatically reinstated, as the case may be, if at any time payment of all or any part of the Obligations is rescinded or must otherwise be returned by Bank upon insolvency, bankruptcy, or reorganization of Borrower or otherwise, all as though such payment had not been made.

13. No Challenge to Liens. Creditor agrees that it will not make any assertion, claim or argument in any action, suit or proceeding of any nature whatsoever in any way challenging the priority, validity or effectiveness of the liens and security interests granted to Bank.

14. Disposition or Release of Collateral.

(a) If at any time or from time to time the Collateral, or any portion thereof, is in any manner sold or otherwise transferred, Creditor shall not be entitled to receive any proceeds (cash or non-cash) of such disposition unless and until the Obligations have been indefeasibly paid in full.

(b) If, at any time and for any reason, Bank releases its lien on the Collateral, or any portion thereof, Creditor shall likewise release its lien on the property so released from Bank's lien, if Creditor has obtained such a lien.

15. Order of Proceedings. Nothing in this Agreement is intended to compel Bank or Creditor at any time to declare Borrower and/or Mezzanine Borrower in default or compel Bank to proceed against or refrain from proceeding against any Collateral in any order or manner. All rights and remedies of Bank with respect to the Collateral, Borrower, and any other obligors concerning the Obligations are cumulative and not alternative.

16. Assignments.

(a) Creditor agrees that as a prior condition of any assignment of any of its interests under any of Creditor Documents, Creditor shall require the assignee to acknowledge this Agreement and agree, in writing, to be bound by the terms and conditions hereof.

(b) Each and every Creditor Document shall bear the following legend, or a similar legend acceptable to Bank, in boldface type:

This Note is subject to the terms of a Debt Subordination Agreement in favor of PNC Bank, National Association. Notwithstanding any contrary statement contained in the within instrument, no payment on account of any obligation arising from or in connection with the within instrument or any related agreement (whether of principal, interest or otherwise) shall be made, paid, received or accepted except in accordance with the terms of said Debt Subordination Agreement.

17. Financing of Fiduciary. In the event a bankruptcy, reorganization, other insolvency or court proceeding for Borrower commences, Bank shall have the option (in its sole and absolute discretion) to continue to provide financing (on terms acceptable to Bank) of the trustee, other fiduciary, or of Borrower as a debtor-in-possession, if Bank deems such financing to be in its best interests. The subordination and lien priority provisions of this Agreement shall continue to apply to all advances made during the pendency of such court proceedings, so that Bank shall have a prior lien on all Collateral as set forth in this Agreement, created before or during such court proceeding, to secure all Obligations, whether created before or during such court proceeding. Creditor hereby waives any right it may have to object to financing by Bank during the pendency of such court proceeding and Creditor's consent to such financing shall not be required regardless of whether the court supervising such proceeding approves, grants or allows adequate protection to Creditor.

18. Investigation of Parties. Creditor has entered into the Creditor Documents with Mezzanine Borrower, Bank has entered into the Loan Documents with Borrower and Creditor and Bank have entered into this Agreement, each upon its own independent investigation, and each makes no warranty or representation as to each other with respect to the financial condition of Borrower or Mezzanine Borrower, or either entity's ability to repay its loans to Creditor or Bank in the future. Nothing in this Agreement shall be deemed to constitute this Agreement as a security or create a joint venture or partnership between Creditor and Bank for any purpose.

19. Improper Action by Creditor. If any of Creditor, Mezzanine Borrower or Borrower, contrary to this Agreement, make, attempt to or threaten to allow Creditor to exercise its remedies against Mezzanine Borrower under Creditor Documents, or make any payment or take any action contrary to this Agreement, Bank may restrain or enjoin Creditor, Mezzanine Borrower and Borrower from so doing, it being expressly understood and agreed by Creditor, Mezzanine Borrower and Borrower that: (i) Bank's damages from their actions may at that time be difficult to ascertain and may be irreparable, and (ii) Creditor, Mezzanine Borrower and Borrower waive any defense or claim that Bank or Borrower cannot demonstrate damages or can be made whole by the awarding of damages.

20. Indemnification of Bank. Creditor agrees to indemnify and to hold Bank, its officers, directors, agents and employees harmless for any and all losses, damages, liabilities, expenses and obligations, including attorneys' fees and expenses, as they arise, relating to actions of Creditor taken contrary to this Agreement.

21. Notices. All notices, demands, requests, consents, approvals and other communications required or permitted hereunder ("Notices") must be in writing and will be effective upon receipt. Notices may be given in any manner to which the parties may separately

agree, including electronic mail. Without limiting the foregoing, first-class mail, facsimile transmission and commercial courier service are hereby agreed to as acceptable methods for giving Notices. Regardless of the manner in which provided, Notices may be sent to a party's address set forth below or to such other address as any party may give to the other in writing for such purpose in accordance with this Section:

If to Bank: PNC Bank, National Association
101 West Washington Street
Mail Locator II-Y013-01-3
Indianapolis, IN 46255
Attn: Sarah E. Beeson, Vice President

If to Creditor: The Housing and Redevelopment Authority
in and for the City of Ramsey, MN
Ramsey Municipal Center
7550 Sunwood Drive
Ramsey, MN 55303
Attn: Executive Director

If to the City: City of Ramsey, Minnesota
Ramsey Municipal Center
7550 Sunwood Drive
Ramsey, MN 55303
Attn: City Administrator

If to Borrower: F&C Ramsey Apartments, LLC
8900 Keystone Crossing, #1200
Indianapolis, IN 46240
Attn: David M. Flaherty

If to Mezzanine Borrower: F&C Ramsey Member, LLC
8900 Keystone Crossing, #1200
Indianapolis, IN 46240
Attn: David M. Flaherty

22. Preservation of Rights. No delay or omission on Bank's part to exercise any right or power arising hereunder will impair any such right or power or be considered a waiver of any such right or power, nor will Bank's action or inaction impair any such right or power. Bank's rights and remedies hereunder are cumulative and not exclusive of any other rights or remedies which Bank may have under other agreements, at law or in equity. Nothing in this Agreement is intended to modify, alter, reduce or impair any rights which Bank or Creditor may have against Borrower and/or Mezzanine Borrower under the Loan Documents or Creditor Documents, respectively, or under any other agreement between them, or either of them, and Borrower and/or Mezzanine Borrower.

23. Illegality. If any provision contained in this Agreement should be invalid, illegal or unenforceable in any respect, it shall not affect the validity, legality and enforceability of the remaining provisions of this Agreement.

24. Changes in Writing. No modification, amendment or waiver of, or consent to any departure by Borrower, Mezzanine Borrower or Creditor from, any provision of this Agreement, will be effective unless made in a writing and signed by Bank, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. No notice to or demand on Borrower in any case will entitle Borrower to any other or further notice or demand in the same, similar or other circumstance.

25. Entire Agreement. This Agreement (including the documents and instruments referred to herein) constitutes the entire agreement and supersedes all other prior agreements and understandings, both written and oral, among the parties with respect to the subject matter hereof.

26. Counterparts. This Agreement may be signed in any number of counterpart copies and by the parties hereto on separate counterparts, but all such copies shall constitute one and the same instrument. Delivery of an executed counterpart of a signature page to this Agreement by facsimile transmission shall be effective as delivery of a manually executed counterpart. Any party so executing this Agreement by facsimile transmission shall promptly deliver a manually executed counterpart, provided that any failure to do so shall not affect the validity of the counterpart executed by facsimile transmission.

27. Successors and Assigns. This Agreement will be binding upon and inure to the benefit of Borrower, Mezzanine Borrower, Creditor and Bank and their respective heirs, executors, administrators, successors and assigns; *provided, however*, that neither Borrower, Mezzanine Borrower nor Creditor may assign this Agreement in whole or in part without Bank's prior written consent and Bank at any time may assign this Agreement in whole or in part. No claims or rights are intended to be created hereunder for the benefit of Borrower, Mezzanine Borrower or any alleged third party beneficiary hereof.

28. Interpretation. In this Agreement, unless the parties otherwise agree in writing, the singular includes the plural and the plural the singular; words importing any gender include the other genders; references to statutes are to be construed as including all statutory provisions consolidating, amending or replacing the statute referred to; the word "or" shall be deemed to include "and/or", the words "including", "includes" and "include" shall be deemed to be followed by the words "without limitation"; references to articles, sections (or subdivisions of sections) or exhibits are to those of this Agreement; and references to agreements and other contractual instruments shall be deemed to include all subsequent amendments and other modifications to such instruments, but only to the extent such amendments and other modifications are not prohibited by the terms of this Agreement. Section headings in this Agreement are included for convenience of reference only and shall not constitute a part of this Agreement for any other purpose. If this Agreement is executed by more than one party as Borrower, Mezzanine Borrower or Creditor, the obligations of such persons or entities hereunder will be joint and several.

29. Governing Law and Jurisdiction. This Agreement has been delivered to and accepted by Bank and will be deemed to be made in the State where Bank's office indicated above is located. THIS AGREEMENT WILL BE INTERPRETED AND THE RIGHTS AND LIABILITIES OF THE PARTIES HERETO DETERMINED IN ACCORDANCE WITH THE LAWS OF THE STATE WHERE BANK'S OFFICE INDICATED ABOVE IS LOCATED, EXCLUDING ITS CONFLICT OF LAWS RULES. Each of Borrower, Mezzanine Borrower and Creditor hereby irrevocably consents to the exclusive jurisdiction of any state or federal court in the county or judicial district where Bank's office indicated above is located; *provided* that nothing contained in this Agreement will prevent Bank from bringing any action, enforcing any award or judgment or exercising any rights against Borrower, Mezzanine Borrower or Creditor individually, against any security or against any property of Borrower within any other county, state or other foreign or domestic jurisdiction. The parties hereto agree that the venue provided above is the most convenient forum for each of the parties. Each of Borrower, Mezzanine Borrower and Creditor waives any objection to venue and any objection based on a more convenient forum in any action instituted under this Agreement.

30. WAIVER OF JURY TRIAL. **EACH OF BORROWER, MEZZANINE BORROWER, CREDITOR AND BANK IRREVOCABLY WAIVES ANY AND ALL RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY ACTION, PROCEEDING OR CLAIM OF ANY NATURE RELATING TO THIS AGREEMENT, ANY DOCUMENTS EXECUTED IN CONNECTION WITH THIS AGREEMENT OR ANY TRANSACTION CONTEMPLATED IN ANY OF SUCH DOCUMENTS.** BORROWER, MEZZANINE BORROWER, CREDITOR AND BANK ACKNOWLEDGE THAT THE FOREGOING WAIVER IS KNOWING AND VOLUNTARY.

31. Subordination of Development Agreement. Creditor and the City hereby agree that, upon an Event of Default, Bank may elect, in an instrument to be recorded in the Anoka County, Minnesota land record and delivered to the City and Creditor prior to commencement of proceedings to foreclose the Mortgage, to either:

- (i) treat the Development Agreement as being subordinate to the lien of the Mortgage such that the foreclosure of the Mortgage and the failure of any owner to redeem the Real Estate from such foreclosure will extinguish and terminate the Development Agreement, and the TIF Note (but not the Assessment Agreement (as defined in the Development Agreement)) will automatically be canceled and rescinded; or
- (ii) treat the Development Agreement as having priority over the Mortgage, in which case the Development Agreement and the TIF Note will survive foreclosure of the Mortgage and the Development Agreement will be binding upon the holder of the Sheriff's Certificate in conjunction with the foreclosure of the Mortgage.

If Bank fails to notify the City and Creditor of its election under this Section on or before the commencement of foreclosure proceedings, Bank shall have been deemed to have elected to

treat the Development Agreement as being subordinate to the lien of the Mortgage such that the foreclosure of the Mortgage and the failure of any owner to redeem the Real Estate from such foreclosure will extinguish and terminate the Development Agreement, and the TIF Note (but not the Assessment Agreement) will automatically terminate. The City further agrees that if Bank elects to treat the Development Agreement as having priority over the Mortgage, the City will, upon completion of the foreclosure without redemption by Borrower or any junior creditor, amend the Development Agreement to extend the time for the completion of Minimum Improvements (as defined in the Development Agreement) to a date that is twelve (12) months after the expiration of all applicable redemption periods.

32. Rights of City. Bank hereby acknowledges and agrees that the City is only a party to this Agreement with respect to Section 31 hereof. Nothing in this Agreement shall impair the City's right to cancel and terminate the TIF Note upon the occurrence of any default or event of default under the Development Agreement or Creditor Documents.

[Signatures on following page]

IN WITNESS WHEREOF, the parties hereto have executed this Debt Subordination Agreement as of the date and year first set forth above.

“BORROWER”
F&C RAMSEY APARTMENTS, LLC,
an Indiana limited liability company

By: _____
David M. Flaherty, Manager

STATE OF INDIANA)
) SS:
COUNTY OF _____)

BEFORE ME, a Notary Public in and for said County and State, personally appeared David M. Flaherty, the duly authorized Manager of F&C Ramsey Apartments, LLC, who executed the foregoing Debt Subordination Agreement on behalf of such entity and acknowledged the signing and execution of said instrument to be his voluntary act and deed for the uses and purposes therein mentioned.

Witness my hand and Notarial Seal this ____ day of _____, 2012.

My Commission Expires:

_____, Notary Public
and Resident of _____ County

IN WITNESS WHEREOF, the parties hereto have executed this Debt Subordination Agreement as of the date and year first set forth above.

“MEZZANINE BORROWER”
F&C RAMSEY MEMBER, LLC,
an Indiana limited liability company

By: _____
David M. Flaherty, Manager

STATE OF INDIANA)
) SS:
COUNTY OF _____)

BEFORE ME, a Notary Public in and for said County and State, personally appeared David M. Flaherty, the duly authorized Manager of F&C Ramsey Member, LLC, who executed the foregoing Debt Subordination Agreement on behalf of such entity and acknowledged the signing and execution of said instrument to be his voluntary act and deed for the uses and purposes therein mentioned.

Witness my hand and Notarial Seal this ____ day of _____, 2012.

My Commission Expires:

_____, Notary Public
and Resident of _____ County

IN WITNESS WHEREOF, the parties hereto have executed this Debt Subordination Agreement as of the date and year first set forth above.

“CREDITOR”

THE HOUSING AND REDEVELOPMENT
AUTHORITY IN AND FOR THE CITY OF
RAMSEY, MINNESOTA, a public body politic and
corporate under the laws of the State of Minnesota

By: _____

Printed: _____

Title: _____

STATE OF INDIANA)
) SS:
COUNTY OF _____)

BEFORE ME, a Notary Public in and for said County and State, personally appeared _____, the duly authorized _____ of The Housing and Redevelopment Authority in and for the City of Ramsey, Minnesota, who executed the foregoing Debt Subordination Agreement on behalf of such entity and acknowledged the signing and execution of said instrument to be his voluntary act and deed for the uses and purposes therein mentioned.

Witness my hand and Notarial Seal this ____ day of _____, 2012.

My Commission Expires:

_____, Notary Public
and Resident of _____ County

IN WITNESS WHEREOF, the parties hereto have executed this Debt Subordination Agreement as of the date and year first set forth above.

“CITY”

CITY OF RAMSEY, MINNESOTA, a home rule charter city organized and existing under the constitution and laws of the State of Minnesota

By: _____

Printed: _____

Title: _____

STATE OF INDIANA)
) SS:
COUNTY OF _____)

BEFORE ME, a Notary Public in and for said County and State, personally appeared _____, the duly authorized _____ of the City of Ramsey, Minnesota, who executed the foregoing Debt Subordination Agreement on behalf of such entity and acknowledged the signing and execution of said instrument to be his voluntary act and deed for the uses and purposes therein mentioned.

Witness my hand and Notarial Seal this ___ day of _____, 2012.

My Commission Expires:

_____, Notary Public
and Resident of _____ County

IN WITNESS WHEREOF, the parties hereto have executed this Debt Subordination Agreement as of the date and year first set forth above.

“BANK”
PNC BANK, NATIONAL ASSOCIATION,
a national banking association

By: _____
Sarah E. Beeson, Vice President

STATE OF INDIANA)
) SS:
COUNTY OF MARION)

BEFORE ME, a Notary Public in and for said County and State, personally appeared Sarah E. Beeson, the duly authorized officer of PNC Bank, National Association, who executed the foregoing Debt Subordination Agreement on behalf of such entity and acknowledged the signing and execution of said instrument to be her voluntary act and deed for the uses and purposes therein mentioned.

Witness my hand and Notarial Seal this ____ day of _____, 2012.

My Commission Expires: _____
_____, Notary Public
and Resident of _____ County

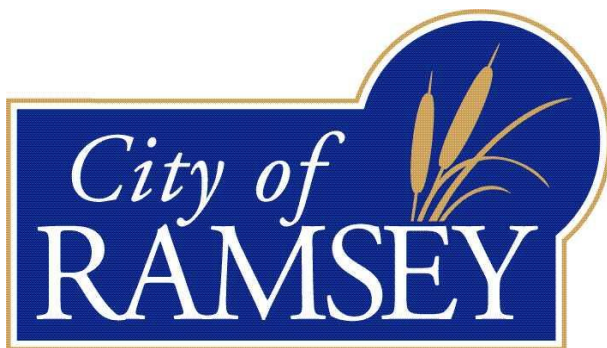
This instrument drafted by (and return recorded instrument to): Keith A. Bice, Bingham Greenebaum Doll LLP, 2700 Market Tower, 10 West Market Street, Indianapolis, IN 46204, (317) 635-8900.

EXHIBIT A
LEGAL DESCRIPTION

February 28, 2012

Pre-Sale Report for
Up to \$7,450,000 Taxable General Obligation Tax
Increment Bonds, Series 2012

City of Ramsey, Minnesota



Prepared and Presented by:

Stacie Kvilvang
Executive Vice President

And

Mark Ruff
Executive Vice President

Executive Summary of Proposed Debt

Proposed Issue:	Up to \$7,450,000 Taxable GO Tax Increment Bonds, Series 2012
Authority:	<p>The TIF Bonds are being issued pursuant to Minnesota Statutes, Chapter 469 and 475. The Bonds will be general obligations of the City, for which its full faith, credit and taxing powers are pledged. Because tax increment from TIF District #14 is expected to equal not less than 20% of the principal amount of the Bonds, the Bonds can be a general obligation without a referendum and will not count against the City's debt limit.</p>
Purposes/Funding Sources:	<p>The Bonds are being issued to pay for certain qualified costs related to the construction of the COR Apartments which will consist of approximately 230 rental units.</p> <p>The Bonds will be paid by tax increment generated by the project and payments to be made by the developer or the parent of the developer pursuant to the Loan Agreement, Note and Development Agreement.</p>
Discussion Issues	<p>Due to extremely low rates in the bond market, staff and Ehlers would like to have the flexibility to determine if the City should issue a 3 year temporary bond or issue a longer term bond with a short call (payoff or refinance) date of 3 years. Staff and Ehlers would continue to monitor the market and as the sale date of April 24, 2012 gets closer, inform the Council on financial implications of each option and recommended way to proceed.</p> <p>If the City issued a 3 year temporary Bond, the principal amount of the bonds would be \$7,125,000 and would have capitalized interest in the amount of approximately \$207,338 to pay interest payments through August 1, 2014.</p> <p>It is anticipated that at the end of the 3 year term, the developer will have secured permanent financing to pay the Bonds in their entirety on June 1, 2015. If the developer is unable to secure financing to pay the entire outstanding principal on the Bonds, then the City has the option to issue another 3 year temporary bond for the unpaid portion and/or issue a long-term bond to be paid from tax increment. These options would have increased costs due to expenses associated with issuing another bond (financial advisor, bond counsel, rating, county, underwriters discount, etc.) and possible increased interest costs at the time of issuance.</p> <p>The City could issue a 10 year Bond, with a 3 year call date (pay off/refinance) like the temporary bonds. If the City did this, the principal amount of the Bonds would be \$7,415,000 and would include capitalized interest in the amount of approximately \$450,339 to pay interest payments through August 1, 2014. Like the 3 year temporary Bond, it is anticipated that the developer will have secured</p>



	<p>permanent financing to pay the Bonds in their entirety on June 1, 2015.</p> <p>The cost difference between the 2 options is that it will cost the City approximately \$240,000 more to issue a 10 year bond now versus a 3 year temporary bond. However, this amount decreases to approximately \$130,000 if the temporary bond is not paid in full on June 1, 2015 and the City has to issue another temporary bond and/or long term bond. Further reducing this difference would be the impact of higher interest rates in 2015.</p>
Term/Call Feature	<p>If the Bonds are issued for a temporary 3 year term, they can be prepaid at any time after February 1, 2013. Interest is payable every six months on February 1 and August 1 and principal on the Bonds will be due on February 1, 2015.</p> <p>If the Bonds are issued for a 10 year term, they would contain a 3 year call date, meaning that they cannot be prepaid until February 1, 2015.</p>
Bank Qualification	<p>Because the Bonds are taxable obligations they will not be designated as “bank qualified” obligations.</p>
Rating:	<p>The City’s most recent bond issue was rated AA+ by Standard & Poor’s. The City will request a new rating for the Bonds.</p> <p>If the winning bidder on the Bonds elects to purchase bond insurance, the rating for the issue may be higher than the City's bond rating in the event that the bond rating of the insurer is higher than that of the City.</p>
Method of Sale/Placement:	<p>In order to obtain the lowest interest cost to the City, we will solicit competitive bids for purchase of the Bonds from local banks in your area and national and regional underwriters.</p> <p>We have included an allowance for discount bidding equal to .5% of the principal amount of the issue. The discount is treated as an interest item and provides the underwriter with all or a portion of its compensation in the transaction.</p> <p>If the Bonds are purchased at a price greater than the minimum bid amount (maximum discount), the unused allowance may be used to lower your borrowing amount.</p>
Continuing Disclosure:	<p>Because the City has more than \$10,000,000 in outstanding debt (including this issue) and this issue is over \$1,000,000, the City will be agreeing to provide certain updated Annual Financial Information and its Audited Financial Statement annually as well as providing notices of the occurrence of certain “material events” to the Municipal Securities Rulemaking Board (the “MSRB”), as required</p>





	by rules of the Securities and Exchange Commission (SEC). The City is already obligated to provide such reports for its existing bonds, and has contracted with Northland Securities to prepare and file the reports.
Arbitrage Monitoring:	The Bonds are taxable obligations and are therefore not subject to IRS arbitrage and yield restriction requirements.



Proposed Debt Issuance Schedule

Pre-Sale Review by Council:	February 28, 2012
Distribute Official Statement:	Week of April 2 ,2012
Conference Call With Rating Agency:	Week of April 16 , 2012
City Council Meeting to Award Sale of the Bonds:	April 24, 2012
Estimated Closing Date:	June 5, 2012

Attachments

- Sources and Uses of Funds
- Proposed Debt Service Schedules
- Resolution Authorizing Ehlers to Proceed With Bond Sale

Ehlers Contacts:

Financial Advisors:	Stacie Kvilvang Mark Ruff	(651)-697-8506 (651)-697-8505
Bond Analyst:	Pia Troy	(651) 697-8556
Bond Sale Coordinator:	Alicia Aulwes	(651) 697-8523
Financial Analyst:	Alicia Gage	(651) 697-8551

The Official Statement for this financing will be mailed to the City Council members at their home address or e-mailed for review prior to the sale date.



Resolution No. _____

Council Member _____ introduced the following resolution and moved its adoption:

**Resolution Providing for the Sale of
Up to \$7,450,000 Taxable G.O. Tax Increment Bonds, Series 2012**

- A. WHEREAS, the City Council of the City of Ramsey, Minnesota, has heretofore determined that it is necessary and expedient to issue up to the City's \$7,450,000 Taxable G.O. Tax Increment Bonds, Series 2012 (the "Bonds"), to finance certain qualified costs related to the construction of the COR Apartments in the City; and
- B. WHEREAS, the City has retained Ehlers & Associates, Inc., in Roseville, Minnesota ("Ehlers"), as its independent financial advisor for the Bonds and is therefore authorized to solicit proposals in accordance with Minnesota Statutes, Section 475.60, Subdivision 2(9);

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Ramsey, Minnesota, as follows:

1. Authorization; Findings. The City Council hereby authorizes Ehlers to solicit proposals for the sale of the Bonds.
2. Meeting; Proposal Opening. The City Council shall meet at 7:00 p.m. on April 24, 2012, for the purpose of considering sealed proposals for and awarding the sale of the Bonds.
3. Official Statement. In connection with said sale, the officers or employees of the City are hereby authorized to cooperate with Ehlers and participate in the preparation of an official statement for the Bonds and to execute and deliver it on behalf of the City upon its completion.

The motion for the adoption of the foregoing resolution was duly seconded by Council Member _____ and, after full discussion thereof and upon a vote being taken thereon, the following Council Members voted in favor thereof:

and the following voted against the same:

Whereupon said resolution was declared duly passed and adopted.

Dated this 28th day of February, 2012.

City Clerk

City of Ramsey, Minnesota

\$7,125,000

Taxable General Obligation Temporary Tax Increment Notes, Series 2012

Sources & Uses

Dated 06/05/2012 | Delivered 06/05/2012

Sources Of Funds

Par Amount of Bonds	\$7,125,000.00
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Total Sources	\$7,125,000.00
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Uses Of Funds

Deposit to Project Construction Fund	6,825,000.00
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Deposit to Capitalized Interest (CIF) Fund	207,337.50
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Costs of Issuance	54,500.00
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Total Underwriter's Discount (0.500%)	35,625.00
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Deposit to Project Fund	2,537.50
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Total Uses	\$7,125,000.00
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City of Ramsey, Minnesota

\$7,125,000

Taxable General Obligation Temporary Tax Increment Notes, Series 2012

Debt Service Schedule

Date	Principal	Coupon	Interest	Total P+I	CIF	Net New D/S	105% of Total	Fiscal Total
06/05/2012	-	-	-	-	-	-	-	-
02/01/2013	-	-	63,056.25	63,056.25	(63,056.25)	-	-	-
08/01/2013	-	-	48,093.75	48,093.75	(48,093.75)	-	-	-
02/01/2014	-	-	48,093.75	48,093.75	(48,093.75)	-	-	-
08/01/2014	-	-	48,093.75	48,093.75	(48,093.75)	-	-	-
02/01/2015	7,125,000.00	1.350%	48,093.75	7,173,093.75	-	7,173,093.75	7,531,748.44	7,531,748.44
Total	\$7,125,000.00	-	\$255,431.25	\$7,380,431.25	(207,337.50)	\$7,173,093.75	\$7,531,748.44	-

Significant Dates

Dated	6/05/2012
First Coupon Date	2/01/2013

Yield Statistics

Bond Year Dollars	\$18,920.83
Average Life	2.656 Years
Average Coupon	1.3500000%
Net Interest Cost (NIC)	1.5382845%
True Interest Cost (TIC)	1.5424873%
Bond Yield for Arbitrage Purposes	1.3496464%
All Inclusive Cost (AIC)	1.8397603%

City of Ramsey, Minnesota

\$7,415,000

Taxable General Obligation Bonds, Series 2012

10 Year Term

Sources & Uses

Dated 06/05/2012 | Delivered 06/05/2012

Sources Of Funds

Par Amount of Bonds	\$7,415,000.00
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Total Sources	\$7,415,000.00
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Uses Of Funds

Total Underwriter's Discount (1.000%)	74,150.00
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Costs of Issuance	63,000.00
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Deposit to Capitalized Interest (CIF) Fund	450,338.67
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Deposit to Project Construction Fund	6,825,000.00
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Deposit to Project Fund	2,511.33
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Total Uses	\$7,415,000.00
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City of Ramsey, Minnesota

\$7,415,000

Taxable General Obligation Bonds, Series 2012

10 Year Term

Debt Service Schedule

Date	Principal	Coupon	Interest	Total P+I	Fiscal Total
06/05/2012	-	-	-	-	-
02/01/2013	-	-	136,958.67	136,958.67	136,958.67
08/01/2013	-	-	104,460.00	104,460.00	-
02/01/2014	-	-	104,460.00	104,460.00	208,920.00
08/01/2014	-	-	104,460.00	104,460.00	-
02/01/2015	665,000.00	1.750%	104,460.00	769,460.00	873,920.00
08/01/2015	-	-	98,641.25	98,641.25	-
02/01/2016	675,000.00	1.900%	98,641.25	773,641.25	872,282.50
08/01/2016	-	-	92,228.75	92,228.75	-
02/01/2017	690,000.00	2.150%	92,228.75	782,228.75	874,457.50
08/01/2017	-	-	84,811.25	84,811.25	-
02/01/2018	705,000.00	2.550%	84,811.25	789,811.25	874,622.50
08/01/2018	-	-	75,822.50	75,822.50	-
02/01/2019	725,000.00	2.750%	75,822.50	800,822.50	876,645.00
08/01/2019	-	-	65,853.75	65,853.75	-
02/01/2020	740,000.00	3.000%	65,853.75	805,853.75	871,707.50
08/01/2020	-	-	54,753.75	54,753.75	-
02/01/2021	765,000.00	3.150%	54,753.75	819,753.75	874,507.50
08/01/2021	-	-	42,705.00	42,705.00	-
02/01/2022	790,000.00	3.350%	42,705.00	832,705.00	875,410.00
08/01/2022	-	-	29,472.50	29,472.50	-
02/01/2023	815,000.00	3.500%	29,472.50	844,472.50	873,945.00
08/01/2023	-	-	15,210.00	15,210.00	-
02/01/2024	845,000.00	3.600%	15,210.00	860,210.00	875,420.00
Total	\$7,415,000.00	-	\$1,673,796.17	\$9,088,796.17	-

Yield Statistics

Bond Year Dollars	\$54,705.94
Average Life	7.378 Years
Average Coupon	3.0596239%
Net Interest Cost (NIC)	3.1951668%
True Interest Cost (TIC)	3.1934290%
Bond Yield for Arbitrage Purposes	3.0387794%
All Inclusive Cost (AIC)	3.3264179%

IRS Form 8038

Net Interest Cost	3.0596239%
Weighted Average Maturity	7.378 Years

City of Ramsey, Minnesota

\$7,415,000

Taxable General Obligation Bonds, Series 2012

10 Year Term

Net Debt Service Schedule

Date	Principal	Coupon	Interest	Total P+I	CIF	Net New D/S	Fiscal Total
06/05/2012	-	-	-	-	-	-	-
02/01/2013	-	-	136,958.67	136,958.67	(136,958.67)	-	-
08/01/2013	-	-	104,460.00	104,460.00	(104,460.00)	-	-
02/01/2014	-	-	104,460.00	104,460.00	(104,460.00)	-	-
08/01/2014	-	-	104,460.00	104,460.00	(104,460.00)	-	-
02/01/2015	665,000.00	1.750%	104,460.00	769,460.00	-	769,460.00	769,460.00
08/01/2015	-	-	98,641.25	98,641.25	-	98,641.25	-
02/01/2016	675,000.00	1.900%	98,641.25	773,641.25	-	773,641.25	872,282.50
08/01/2016	-	-	92,228.75	92,228.75	-	92,228.75	-
02/01/2017	690,000.00	2.150%	92,228.75	782,228.75	-	782,228.75	874,457.50
08/01/2017	-	-	84,811.25	84,811.25	-	84,811.25	-
02/01/2018	705,000.00	2.550%	84,811.25	789,811.25	-	789,811.25	874,622.50
08/01/2018	-	-	75,822.50	75,822.50	-	75,822.50	-
02/01/2019	725,000.00	2.750%	75,822.50	800,822.50	-	800,822.50	876,645.00
08/01/2019	-	-	65,853.75	65,853.75	-	65,853.75	-
02/01/2020	740,000.00	3.000%	65,853.75	805,853.75	-	805,853.75	871,707.50
08/01/2020	-	-	54,753.75	54,753.75	-	54,753.75	-
02/01/2021	765,000.00	3.150%	54,753.75	819,753.75	-	819,753.75	874,507.50
08/01/2021	-	-	42,705.00	42,705.00	-	42,705.00	-
02/01/2022	790,000.00	3.350%	42,705.00	832,705.00	-	832,705.00	875,410.00
08/01/2022	-	-	29,472.50	29,472.50	-	29,472.50	-
02/01/2023	815,000.00	3.500%	29,472.50	844,472.50	-	844,472.50	873,945.00
08/01/2023	-	-	15,210.00	15,210.00	-	15,210.00	-
02/01/2024	845,000.00	3.600%	15,210.00	860,210.00	-	860,210.00	875,420.00
Total	\$7,415,000.00	-	\$1,673,796.17	\$9,088,796.17	(450,338.67)	\$8,638,457.50	-