

**EDA 274 Revolving Loan Fund**  
**Revitalization and Creation of Apartment(s)**  
**Guidelines & Application**

**The City of Preston Economic Development Authority (EDA) will provide low interest, residential multi-family housing rehabilitation loans to qualifying downtown buildings owners through the 274 multi – family and apartment revolving loan fund. Loans will be made to sustain affordable housing in Preston, revitalize and strengthen the downtown for business expansion, job creation, provide affordable housing to low to moderate income families, and in some cases compliment small cities block grant funding.**

**Program Purpose:**

1. To lend low interest funds to the existing commercial building owners, and or multi- family property owns to develop or rehabilitate affordable apartments
2. To lend low interest funds to improve energy efficiency and overhead costs
3. To repair and revitalize
4. When applicable to compliment the small cities block grant application
5. To improve the apartments in Preston for the purpose of job retention, workforce housing, business retention, expand businesses, and to encourage through a low cost loan Preston’s landlords to improve the building’s overall livability

**Location of qualifying commercial buildings:**

1. Within the City of Preston

**Amount of Funds:**

- The Economic Development Authority commits the city of Preston 274 account, which at the time of writing these guidelines has a balance of approximately \$35,000 into the “Revitalization and Creation of Apartment(s) Revolving Loan Fund” program for downtown housing.

**Terms:**

1. ***Maximum loan per unit is \$8,500***
2. 2% interest for applicants
3. Amortization period of five (5) years
4. Payments due to the City of Preston EDA fall on the fifth of each month and monthly thereafter.
5. Applicants make auto payments to the City of Preston, 3 months after closing. Loan repayment is deferred for three (3) months

6. Loans in the 100- year flood plain are permissible when the building utilities and apartments are not in the lower level of the structure
7. Applicant must have equity in the building, and provide good and marketable title.
8. Applicant will assist the City attorney and the EDA Director with the collection of documents to create a funding package for the EDA Director's review and the EDA board and City Council approval. The EDA Director will work with the applicant's commercial banker to verify repayment ability
9. Approval of the funding package is determined by the applicant qualifying as a Qualified Owner
10. When the applicant is working with a commercial bank, EDA funds will be transferred to the bank at closing into the applicant's construction loan account, the applicant will bring in signed lien waivers for reimbursement to the owner, or the bank with a signed lien waiver may pay the contractor directly
11. Repayment of the loan is paid to the city of Preston by the applicant/building owner through automatic withdrawals
12. The Economic Development Authority reserves the right to deny loans
13. Compliance with the requests of the City Attorney concerning title work and closing of the loan are necessary for closing

**Effective Date:**

1. The lending program begins February 5, 2020 with no for seen program sunset date at this time
2. This program can be extended and funding can be added by recommendation of the Economic Development Authority board and City Council approval

**Additional requirement:**

1. The applicant is to provide a 5 pre- construction photos to accompany the application, and 5 after construction photos
2. The applicant is to participate in annual EDA surveys and allow EDA inspections of work in progress
3. The applicant is encouraged to apply for a commercial bank loan, as this program is considered gap financing to compliment bank financing, and when applicable Small Cities Block Grant program funding
4. The applicants are encouraged to also improve the facades of the historic downtown Preston buildings
5. Acknowledgement to conform if asked to report on the State of MN Low to Moderate Income and Rent annual guidelines
6. Sign a Promissory Note at closing (Exhibit A)
7. Sign the Mortgage (Exhibit B)
8. Sign the Request for Notice of Foreclosure (Exhibit C)

9. Copy of Insurance on the building (fire and extended coverage in an amount equal to the full insurable value of the project with an overlap endorsement or rider to cover the risk of the rehabilitation work in an amount equal to the loan proceeds used in the project).
10. Comprehensive general liability insurance (including operations, contingent liability, operations of subcontractors, completed operations and contractual liability insurance) with limits against bodily injury of not less than one million dollars and against property damage of not less than \$250,000). Umbrella excess liability policy may be used. Applicant to name, City of Preston as the additional insured, with not less than a 10-day written notice to the EDA/City of Preston, of policy changes
11. Agree to an assignment of rents in case of default (provided by the City Attorney at closing)
12. Indemnification agreement compliance at closing (provide by the City Attorney at closing)
13. Provide signed lien waivers for work performed by contractors
14. Sign a consent to release information to allow the EDA to obtain credit information, and personal finance information from the applicant's commercial banker

**Fees:**

There is a \$250.00 attorney fee paid to the City Attorney at closing. *when applicable, the applicant may have additional fees for the title search or to record a lien position on a mortgage, a tax per thousand on the mortgage, and or when applicable a \$20.00 fee for recording UCC documents for liens on inventory and equipment.* The collected fee(s) shall be used to offset expenses associated with implementation of the loan.

EDA adopted: 12-16-10 EDA board

City Council adopted 2-3-20

Continue on to the next page for the application:



Estimated Costs (please itemize)

Financing Sources (please itemize)

_____	\$ _____	_____	\$ _____
_____	\$ _____	_____	\$ _____
_____	\$ _____	_____	\$ _____
_____	\$ _____	_____	\$ _____
<b>TOTAL COSTS</b>	\$ _____	<b>TOTAL FUNDS</b>	\$ _____

*\* Financial statements for the past three years, and permission to pull credit and review financial is to be submitted to the applicant's commercial bank and EDA staff with this application for the EDA staff to review with the commercial banker, Property Owners without financial statements will be required to submit personal tax returns for all principals of the business for the previous three years. The applicant must submit information on all current business related installment debts, contracts, notes, or mortgage payables.*

Banker's information:

Permission to review financials with your commercial banker requires a signature and date

Signature: \_\_\_\_\_ date \_\_\_\_\_

Name of Bank: \_\_\_\_\_ Contact Name: \_\_\_\_\_

Address: \_\_\_\_\_ Phone Number: \_\_\_\_\_

Tax Assessed Value (attach a copy of the recent tax assessment): \$ \_\_\_\_\_

Estimated value *after* project completion: \$ \_\_\_\_\_

Size of Building: \_\_\_\_\_ sq. ft.

Building Type \_\_\_\_\_

Function of Building: \_\_\_\_\_

**PROVIDE A SKETCH PLAN AND/OR BLUEPRINT FOR THE PROJECT**

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**PUBLIC PURPOSE:**

What benefits will the City and its residents gain if assistance is provided?

Number of apartments being improved: \_\_\_\_\_

Number of apartments being created: \_\_\_\_\_

Anticipated rent per unit: Unit #1 \_\_\_\_\_ Unit # 2 \_\_\_\_\_ Unit #3 \_\_\_\_\_ Unit #4 \_\_\_\_\_

Repair, installation of safety items (specify what items): \_\_\_\_\_

Repair of items that improve energy (specify what items): \_\_\_\_\_

How are you addressing parking? \_\_\_\_\_

How does your plan address rear alleys? \_\_\_\_\_

Does your plan include the use of Small Cities Block Grant Funding (if approved for a SCBG): \_\_\_\_\_?

Does your plan include facade improvements (specify) \_\_\_\_\_?

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# OWNERSHIP / COMPANY INFORMATION

Type of company (corporation, etc.): \_\_\_\_\_

Owner(s) name(s): \_\_\_\_\_ Address: \_\_\_\_\_

Phone #: \_\_\_\_\_ Is there a parent company? \_\_\_\_\_

*If there is a parent company, please describe the relationship in detail.*

Has the business, building owners or parent company ever declared bankruptcy? Yes, or No

*If yes, you must include information about the bankruptcy.*

Has your business or parent company received a business subsidy, for this or any other project, from another Minnesota unit of government during the past 5 years? Yes, or No

*If yes is checked, please provide a description of the subsidy and by whom it was provided.*

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This application must be accompanied by a \$0.00 application fee. The applicant agrees to provide additional information if requested by the City.

The undersigned does hereby certify that the information provided within and attached to this application is true and correct to the best of his/her knowledge. The applicant acknowledges that they have received the documentation check list and will allow the EDA Director to review financials with their designated commercial bank to determine eligibility. The applicant will turn in an expense log sheet at closing.

*When participating with small cities block grant funding, the undersigned does hereby certify that they have received the low to moderate annually adjusted low to moderate rental guidelines and acknowledges their intent to rent 51% of the rentals in each building out to low to moderate income persons or families at the rates identified in the guidelines.*

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Applicant

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Title

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Date

## Revitalizing and Creating Apartment(s) RLF

Up to \$8,500 per multifamily housing unit, 5 years 2% interest

### Preston EDA Loan Documentation Checklist for Revolving Loan Funds

All of the applicable items below should be completed and available to the EDA prior to an EDA loan being approved. The EDA is willing to review documents with the applicant's business banker to assist with confidentiality of the applicant's personal financial documents.

**Name of Borrower:** \_\_\_\_\_

**Business Name:** \_\_\_\_\_

**Business Address:** \_\_\_\_\_

**Business Banker:** \_\_\_\_\_

#### Documentation to be reviewed by the Economic Development Authority:

- \_\_\_\_\_ Business Plan or Paragraph describing the rehabilitation project(s)
- \_\_\_\_\_ Letter from the applicant's Business Banker indicating review of the personal and business financials to meet the standard underwriting requirements.
- \_\_\_\_\_ Business Financial Statement
- \_\_\_\_\_ Personal Financial Statement
- \_\_\_\_\_ Projected Cash Flow
- \_\_\_\_\_ Worse-Case Scenario Cash Flow
- \_\_\_\_\_ Federal Taxes (2-Years: Personal, Partnership, Corporate)
- \_\_\_\_\_ Real Estate Appraisal, and, or a copy of the current County Tax Valuation.
- \_\_\_\_\_ Rental Agreements (Apartments or Sub-Lease)
- \_\_\_\_\_ Plans/Blueprints (new construction/additions only)
- \_\_\_\_\_ Auto deposit (ACH) form
- \_\_\_\_\_ Repayment History and outstanding debt via a credit report, owners and encumbrances report

#### **Photos**

\_\_\_\_\_ 5 Before remodeling, photos

\_\_\_\_\_ 5 After remodeling, photos

\_\_\_\_\_ Agree that work will begin within 60 days (applicant's approvals expire within 6 months of approval)

**Insurance:**

\_\_\_\_\_ Copy of Insurance for the file, on your building (fire and extended coverage in an amount equal to the full insurable value of the project with an overlap endorsement or rider to cover the risk of the rehabilitation work in an amount equal to the loan proceeds used in the project) – *please have your insurance agent email the information to the EDA Director – [cathy.enerson@cedausa.com](mailto:cathy.enerson@cedausa.com)*

\_\_\_\_\_ Comprehensive general liability insurance (including operation, contingent liability, operations of sub-contractors, completed operations and contractual liability insurance) with limits against bodily injury of not less than one million dollars and against property damage of not less than \$250,000). Umbrella excess liability policy may be used. Applicant to name the City of Preston as the additional insured, with not less than 10 days written notice to the city of Preston and the Preston EDA, of policy changes. – *please have your insurance agent email the information to the EDA Director – [cathy.enerson@cedausa.com](mailto:cathy.enerson@cedausa.com)*

**Other (only applicable when working with the SCDP grant program)**

\_\_\_\_\_ Acknowledgement to conform and report on the Stat of MN low to Moderate Income Rent Guidelines  
*(this document will be signed with the SCDP contract)*

\_\_\_\_\_ Loan applicant to submit an expense report, and sign the SCDP proceed notice authorizing the initiation work.  
*(The SCDP contractors bid sheets)*

\_\_\_\_\_ Current pay stub from the renters *(only if working with the SCDP grant program and EDA loan program)*

**Closing**

\_\_\_\_\_ Sign a Promissory Note at closing (Exhibit A)

\_\_\_\_\_ Sign a Mortgage (Exhibit B)

\_\_\_\_\_ Sign a Request for Notice of Foreclosure (Exhibit C)

\_\_\_\_\_ Agree to assignments of Rents in case of default, a document signed at closing

\_\_\_\_\_ Indemnification agreement compliance at closing (provided by the attorney at closing)

\_\_\_\_\_ Copies of the signed lien waivers

\_\_\_\_\_ Arrange a site visit with the EDA to see the work when the project is completed

Continue to the Exhibits A – C, which are examples of documents to be signed at closing:

**Exhibit A**

FORM OF NOTE

REHABILITATION ASSISTANCE LOAN NOTE

Date: \_\_\_\_\_

FOR VALUE RECEIVED, the undersigned \_\_\_\_\_ (the "Borrower," whether one or more) jointly and severally agrees(s) to pay to the order of the City of Preston whose address is 210 Fillmore Street West, PO Box 657, Preston, MN, 55965 (the "Lender"), \_\_\_\_\_ Dollars (\$ \_\_\_\_\_), with two percent (2%) interest, on the Maturity Date.

1. Definitions. As used in this Note, the following terms have the following respective meanings:

Event of Default. As defined in Section 3.1 hereof.

First Mortgage. Any mortgage of the Property the lien of which has priority over the Rehabilitation and Creation of Apartment(s) Revolving Loan Assistance Mortgage.

First Note. The promissory note secured by the First Mortgage.

Rehabilitation and Creation of Apartment(s) Assistance Loan Mortgage. The mortgage of even date herewith between the Lender and the Borrower securing payment of this Note, as from time to time amended.

Loan Proceeds. The proceeds of the Loan made by Lender to the Borrower repayment of which is governed by this Note.

Maturity Date. The earliest to occur of:

- (a) The adjudication in bankruptcy of any owner of the Property;
- (b) A declaration by the Lender pursuant to the terms of the Note that the entire unpaid balance of the Note is due and payable;
- (c) A written declaration by the Borrower pursuant to the terms hereof that it desires to prepay this Note;
- (d) A Transfer;
- (e) Foreclosure sale pursuant to the First Mortgage;
- (f) Transfer of the Property to the holder of the First Mortgage or its designee; and
- (g) Satisfaction of the First Mortgage.

Note. This Rehabilitation Assistance Loan Note, as from time to time amended.

Property. The real estate that is encumbered by the Rehabilitation Assistance Loan Mortgage at any time, legally described therein, with a street address of \_\_\_\_\_.

Transfer. A sale or transfer of all or any part of the property, or any interest therein, whether by lease, deed or contract for deed or otherwise, whether for consideration or by gift or in the event of death or otherwise, and whether voluntarily, involuntarily or by operation of law; provided, however,

- (a) if the Borrower owns the Property as co-tenants, a transfer of the Property or any interest therein, from one co-tenant to another co-tenant whether by reason of death or otherwise, shall not be considered a Transfer,
- (b) a taking by eminent domain shall not be considered a transfer unless it is a total taking in the sense that payment is made for the full value of the Property,
- (c) the creation of a lien or encumbrance subordinate to the Gap Financing Mortgage shall not be considered a Transfer,

- (d) the creation of a purchase money security interest for household appliances shall not be considered a Transfer,
- (e) a lease to a tenant if the Property is a duplex, triplex or fourplex, shall not be considered a Transfer.

2. Prepayment; Payment.

2.1 This Note may be prepaid in full or in part at any time without penalty.

2.2 Commencing on the third month after the closing, Borrower shall pay on the first of each month to the City of Preston Economic Development Authority, a principal and interest payment in the amount of \$ \_\_\_\_\_ which shall be due on the first calendar day of each month until the Maturity Date when all of the Principal Amount along with all accrued and unpaid interest are paid in full.

3. Default.

3.1 Any event or thing which, upon the giving of notice as required by the Rehabilitation Assistance Loan Mortgage, permits acceleration of the indebtedness secured by the Rehabilitation Assistance Loan Mortgage, shall constitute an Event of Default hereunder.

3.2 If an Event of Default shall occur, the Lender may declare the entire unpaid principal balance of the Note immediately due and payable without notice. Failure by the Lender to make that declaration by reason of an Event of Default shall not waive its right to make such a declaration upon the subsequent occurrence of the same or any other Event of Default.

4. Covenants. The Borrower covenants that the Loan Proceeds shall be used solely for rehabilitation or creation of an apartment unit(s) and shall be applied to payment of the costs associated with such construction and or rehabilitation work. The Borrower agrees that if any portion of such funds is not needed for the purpose permitted hereby, the Borrower will apply such unneeded amount toward repayment of the Loan.

5. Subordination. This Note is subordinate to the First Note and the First Mortgage.

6. Nonrecourse; Payment Limitation in event of Sale. Upon the occurrence of an Event of Default, the Lender's sole recourse for payment of this Note shall be to the Property and other security provided for in this Note,

and the Lender shall not be entitled to any deficiency after foreclosure of the Rehabilitation Assistance Loan Mortgage.

7. Miscellaneous.

7.1 This Note is secured by the Rehabilitation and Creation of Apartment(s) Assistance Loan Mortgage. All of the terms, covenants, conditions, provisions and agreements of the Rehabilitation Assistance Loan Mortgage are hereby made a part of this instrument to the same extent and with the same force and effect as if fully set forth herein.

7.2 The Borrower and all others who may become liable for all or any part of this obligation agree hereby to be jointly and severally bound and jointly and severally waive demand, protest, notice of nonpayment and any and all lack of diligence or delays in collection or enforcement hereof, and specifically consent to any extension of time, or release of any party liable for this obligation, including any maker, or acceptance of other security therefor. Any such extension or release may be made without notice to said party and without in any way affecting the liability of such party.

7.3 If any payment due under this Note is not paid when due, and this Note is placed in the hands of any attorney or attorneys for collection or foreclosure of the Rehabilitation and Creation of Apartment(s) Revolving Loan Mortgage or enforcement of any other security instrument securing payment hereof, the Borrower promises to pay, in addition to the amount due hereon, the reasonable costs and expenses of foreclosure and collection (including attorneys' fees), and all such costs and expenses shall be secured by the Rehabilitation Assistance Loan Mortgage.

7.4 No failure or delay by the Lender to exercise any right or remedy under this Note shall waive such right or remedy.

7.5 This Note is made and delivered in Minnesota, and accordingly, the clauses and provisions of this Note and the rights, payments, charges, indebtedness and other items hereby secured shall be construed and enforced according to the laws of the State of Minnesota.

IN WITNESS WHEREOF, the Borrower has caused this Note to be executed as of the day and year first above written.

\_\_\_\_\_  
  
\_\_\_\_\_

Continue to form Exhibit B

**Exhibit B**

FORM OF MORTGAGE

REHABILITATION ASSISTANCE LOAN MORTGAGE

THIS Rehabilitation and Creation of Apartment(s) Revolving Loan MORTGAGE (this "Mortgage") is given on \_\_\_\_\_, 20\_\_ . The Mortgagor is \_\_\_\_\_ (herein "**Borrower**"). This Mortgage is given by the City of Preston, a government entity, located at 210 Fillmore Street West, Po Box 657, Preston, MN 55965, (herein "**Lender**"). Borrower owes Lender the principal sum of \_\_\_\_\_ Dollars (U.S. \$\_\_\_\_\_). This debt is evidenced by Borrower's Rehabilitation and Creation of Apartment(s) Revolving Loan Note dated the same date as this Mortgage ("**Note**"), with the full debt, if not paid earlier, due and payable on the Maturity Date as defined in the Note, but in no event later than \_\_\_\_\_, 20\_\_ This Mortgage secures to Lender (a) the repayment of the debt evidenced by the Note, and all renewals, extensions and modifications; (b) the payment of all other sums, with interest thereon, advanced in accordance herewith to protect the security of this Mortgage; and (c) the performance of the covenants and agreements of Borrower under this Mortgage and the Note. For this purpose, Borrower does hereby grant and convey to Lender, with power of sale, the following described property located in the County of \_\_\_\_\_, State of Minnesota: Which has a street address of \_\_\_\_\_ (herein "Property Address");

Together with all the improvements now or hereafter erected on the property, and all easements, rights, appurtenances, rents, royalties, mineral, oil and gas rights and profits, water, water rights, and stock, and all fixtures now or hereafter a part of the property. All replacements and additions shall also be covered by this Mortgage. All of the foregoing is referred to in this Mortgage as the "Property."

Borrower covenants that Borrower is lawfully seized of the estate hereby conveyed and has the right to mortgage, grant and convey the Property and that the Property is unencumbered, except for encumbrances of record. Borrower warrants and will defend generally the title to the Property against all claims and demands, subject to any encumbrances of record.

UNIFORM COVENANTS. Borrower and Lender covenant and agree as follows:

1. Payment of Principal; Prepayment. Borrower shall promptly pay by auto payment when due, on the first of each month, the principal of the debt evidenced by the Note, and any prepayment due under the Note.
2. Application of Payments. Unless applicable law provides otherwise, all payments received by Lender under paragraph 1 hereof shall be applied first to prepayment of charges due under the Note, if any; and second, to accrued and unpaid interest and then to principal due.
3. Charges; Liens. Borrower shall pay all taxes, assessments, charges, fines and impositions attributable to the Property which may attain a priority over this Mortgage, and leasehold payments or ground rents, if any. Borrower shall pay these obligations by making payment, when due, directly to the person owed payment. Borrower shall promptly furnish to Lender all notices of amounts due under this paragraph, and receipts evidencing such payments.

Borrower shall promptly discharge any lien which has priority over this Mortgage unless Borrower: (a) agrees in writing to the payment of the obligation secured by such lien in a manner acceptable to Lender; (b) contests in good faith such lien by, or defends against enforcement of such lien in, legal proceedings which in the Lender's opinion operate to prevent the enforcement of the lien or forfeiture of any part of the Property; or (c) secures from the holder of the lien an agreement satisfactory to Lender subordinating the lien to this Mortgage. If Lender determines that any part of the Property is subject to a lien which may attain priority over this Mortgage, Lender may give Borrower a notice identifying the lien. Borrower shall satisfy the lien or take one or more of the actions set forth above within ten (10) days of the giving of notice.

4. Hazard Insurance. Borrower shall keep the improvements now existing or hereafter erected on the Property insured against loss by fire, hazards included within the term "extended coverage," and such other hazards for which Lender requires insurance. This insurance shall be maintained in the amounts and for the periods the Lender requires. The insurance carrier providing the insurance shall be chosen by Borrower subject to Lender's approval which shall not be unreasonably withheld.

All insurance policies and renewals shall be acceptable to Lender and shall include a standard mortgage clause. Lender shall have the right to hold the policies and renewals. If Lender requires, Borrower shall promptly give to Lender all receipts of paid premiums and renewal notices. In the event of loss, Borrower shall give prompt notice to the insurance carrier and Lender. Lender may make proof of loss if not made promptly by Borrower.

Unless Lender and Borrower otherwise agree in writing, insurance proceeds shall be applied to restoration or repair of the Property damaged, if the restoration or repair is economically feasible and the Lender's security is not lessened. If such restoration or repair is not economically feasible or Lender's security would be lessened, the insurance proceeds shall be applied to the sums secured by this Mortgage, whether due or not, with any excess paid to Borrower. If Borrower abandons the Property or does not answer within 30 days a notice from Lender that the insurance carrier has offered to settle a claim, then Lender may collect the insurance proceeds. Lender may use the proceeds to repair or restore the Property or to pay sums secured by this Mortgage, whether or not then due. The 30-day period will begin when the notice is given.

Unless Lender and Borrower otherwise agree in writing, any application of proceeds to principal shall not extend or postpone the due date of the payment referred to in paragraph 1 or change the amount of the payments. If under paragraph 18 the Property is acquired by Lender, Borrower's right to any insurance policies and proceeds resulting from damage to the Property prior to the acquisition shall pass to Lender to the extent of the sums secured by this Mortgage immediately prior to the acquisition.

The right of Lender to insurance proceeds is subject to the rights therein of the Mortgagee under the First Mortgage.

5. Preservation and Maintenance of Property; Leaseholds; Use of Loan Proceeds. Borrower shall not destroy, damage or substantially change the Property (other than the rehabilitation work contemplated in the Note), allow the Property to deteriorate or commit waste. If this Mortgage is on a leasehold, Borrower shall comply with the provisions of the lease, and if Borrower acquires fee title to the Property, the leasehold and fee title shall not merge unless Lender agrees to the merger in writing. The Loan Proceeds (as defined in the Note) shall be used solely for rehabilitation of the Property. The Borrower shall provide any additional funds, over and above the Loan Proceeds, which may be required to complete the rehabilitation work. The Borrower shall not abandon, discontinue or unreasonably delay the rehabilitation work to be done to the Property for any period of time longer than twenty (20) days, for any reason. Upon completion of the rehabilitation work, the Borrower shall obtain a certificate of occupancy from the municipality in which the Property is situated. The Borrower shall allow the Lender, its officers, employees and agents, to examine all books, records, contracts, plans, drawings, permits, bills and statements of account pertaining to the rehabilitation work and to make extracts therefrom and copies thereof.

6. Protection of Lender's Security. If Borrower fails to perform the covenants and agreements contained in this Mortgage, or there is a legal proceeding that may significantly affect Lender's interest in the Property (such as a proceeding in bankruptcy, probate, for condemnation or to enforce laws or regulations), then Lender may do and pay for whatever is necessary to protect the value of the Property and Lender's rights in the Property. Lender's actions may include paying any sums secured by a lien which has priority over this Mortgage, appearing in court, paying reasonable attorneys' fees and entering on the Property to make repairs. Although Lender may take action under this paragraph 6, Lender does not have to do so.

Any amounts disbursed by Lender under this paragraph 6 shall become additional debt of Borrower secured by this Mortgage. Unless Borrower and Lender agree to other terms of payment, these amounts shall bear interest from the date of disbursement at the highest rate permissible under applicable law, and shall be payable, with interest, upon notice from Lender to Borrower requesting payment.

7. Inspection. Lender, its officers, employees and agents, may make or cause to be made reasonable entries upon and inspections of the Property. Lender shall give Borrower notice at the time of or prior to any inspection specifying reasonable cause for the inspection.

8. Condemnation. The proceeds of any award or claim for damages, direct or consequential, in connection with any condemnation or other taking of any part of the Property or for conveyance in lieu of condemnation, are hereby assigned and shall be paid to Lender.

In the event of a total taking of the Property, the proceeds shall be applied to the sums secured by this Mortgage, whether or not then due, with any excess paid to Borrower. In the event of a partial taking of the Property, unless Borrower and Lender otherwise agree in writing, the sums secured by this Mortgage shall be reduced by the amount of the proceeds multiplied by the following fraction: (a) the total amount of the sums secured by this Mortgage immediately before the taking, divided by (b) the fair market value of the Property immediately before the taking. Any balance shall be paid to Borrower.

If the Property is abandoned by Borrower, or if, after notice by Lender to Borrower that the condemn or offers to make an award or settle a claim for damages, Borrower fails to respond to Lender within 30 days after the date the notice is given, Lender is authorized to collect and apply the proceeds, at its option, either to restoration or repair of the Property or to the sums secured by this Mortgage, whether or not then due.

Unless Lender and Borrower otherwise agree in writing, any application of proceeds to principal shall not extend or postpone the due date of the payments referred to in paragraph 1 hereof or change the amount of such payments.

The right of the Lender to condemnation proceeds is subject to the rights of the mortgagee under the First Mortgage, as defined in Paragraph 22 of this Mortgage.

9. Borrower Not Released; Forbearance by Lender Not a Waiver. Extension of the time for payment or modification of amortization of the sums secured by this Mortgage granted by Lender to any successor in interest of Borrower shall not operate to release the liability of the original Borrower and Borrower's successors in interest. Lender shall not be required to commence proceedings against any successor or refuse to extend time for payment or otherwise modify amortization of the sums secured by this Mortgage by reason of any demand made by the original Borrower or Borrower's successors in interest. Any forbearance by Lender in exercising any right or shall not be a waiver of or preclude the exercise of any such right or remedy.

10. Successors and Assigns Bound; Joint and Several Liability; Co-Signers. The covenants and agreements herein contained shall bind and benefit the successors and assigns of Lender and Borrower. Borrower's covenants and agreements shall be joint and several. Any Borrower who co-signs this Mortgage but does not execute the Note: (a) is co-signing this Mortgage only to mortgage, grant and convey that Borrower's interest in the Property under the terms of this Mortgage; (b) is not personally obligated to pay the sums secured by this Mortgage; and (c) agrees that Lender and any other Borrower may agree to extend, modify, forbear or make any accommodations with regard to the terms of this Mortgage or the Note without that Borrower's consent.

11. Loan Charges. If the loan secured by this Mortgage is subject to a law which sets maximum loan charges, and that law is finally interpreted so that the interest or other loan charges collected or to be collected in connection with the loan exceed the permitted limits, then: (a) any such loan charge shall be reduced by the amount necessary to reduce the charge to the permitted limit; and (b) any sums already collected from Borrower which exceeded permitted limits will be refunded to Borrower. Lender may choose to make this refund by reducing the principal owed under the Note or by making a direct payment to Borrower. If a refund reduces principal, the reduction will be treated as a partial prepayment without any prepayment charge under the Note.

12. Legislation Affecting Lender's Rights. If enactment or expiration of applicable laws has the effect of rendering any provision of the Note or this Mortgage unenforceable according to its terms, Lender, at its option, may require immediate payment in full of all sums secured by this Mortgage and may invoke any remedies permitted by paragraph 18. If Lender exercises this option, Lender shall take the steps specified in the second paragraph of paragraph 16.

13. Notice. Any notice to Borrower provided for in this Mortgage shall be given by delivering it or by mailing it by first class mail unless applicable law requires use of another method. The notice shall be directed to the Property Address or any other address Borrower designates by notice to Lender. Any notice to Lender shall be given by first class mail to Lender's address stated herein or any other address Lender designates by notice to Borrower. Any notice provided for in this Mortgage shall be deemed to have been given to Borrower or Lender when given as provided in this paragraph.

14. Governing Law; Severability. This Mortgage shall be governed by federal law and the law of the jurisdiction in which the Property is located. In the event that any provision or clause of this Mortgage or the Note conflicts with applicable law, such conflict shall not affect other provisions of this Mortgage or the Note which can be given effect without that conflicting provision. To this end the provisions of this Mortgage and the Note are declared to be severable.

15. Borrower's Copy. Borrower shall be given one conformed copy of the Note and of this Mortgage.

16. Transfer of the Property. If all or any part of the Property or an interest therein whether by lease, deed or contract for deed or otherwise, whether for consideration or by gift or in the event of death or otherwise, and whether

voluntarily, involuntarily or by operation of law, is sold or transferred, all sums secured by this Mortgage shall be immediately due and payable. Notwithstanding the foregoing, (a) if the Borrower owns the Property as co-tenants, a transfer of the Property or any interest therein from one co-tenant to another co-tenant shall not be considered a transfer; (b) a taking by eminent domain shall not be considered a transfer unless it is a total taking in the sense that payment is made for the full value of the

Property; (c) the creation of a lien or encumbrance subordinate to this Mortgage shall not be considered a transfer; and (d) the creation of a purchase money security interest for household appliances shall not be considered a transfer.

Lender shall give Borrower notice of acceleration. The notice shall provide a period of not less than 30 days from the date the notice is delivered or mailed within which Borrower may pay all sums secured by this Mortgage. If Borrower fails to pay such sums prior to the expiration of this period, Lender may invoke any remedies permitted by this Mortgage without further notice or demand on Borrower.

17. Borrower's Right to Reinstate. If Borrower meets certain conditions, Borrower shall have the right to have enforcement of this Mortgage discontinued at any time prior to the earlier of: (a) the date and time (or such other period as applicable law may specify for reinstatement) before the sale of the Property pursuant to any power of sale contained in this Mortgage; or (b) entry of judgment enforcing this Mortgage. Those conditions are that Borrower: (i) pays Lender all sums which then would be due under this Mortgage and the Note had no acceleration occurred; (ii) cures any default of any other covenants or agreements; (iii) pays all expenses incurred in enforcing this Mortgage, including, but not limited to, reasonable attorneys' fees; and (iv) takes such action as Lender may reasonably require to assure that the lien of this Mortgage, Lender's rights in the Property and Borrower's obligation to pay the sums secured by this Mortgage shall continue unchanged. Upon reinstatement by Borrower, this Mortgage and the obligations secured hereby shall remain fully effective as if no acceleration had occurred.

NONUNIFORM COVENANTS. Borrower and Lender further convent and agree as follows:

18 Acceleration; Remedies. Unless the "Maturity Date", as defined in the Note, has occurred, Lender shall give notice to Borrower prior to acceleration following Borrower's breach of any covenant or agreement in this Mortgage (but not prior to acceleration under paragraphs 12 and 16 unless applicable law provides otherwise). The notice shall specify: (a) the default; (b) the action required to cure the default; (c) a date, not less than 30 days from the date the notice is given to Borrower, by which the default must be cured; and (d) that failure to cure the default on or before the date specified in the notice may result in acceleration of the sums secured by this Mortgage and the sale of the Property. The notice shall further inform Borrower of the right to reinstate after acceleration and the right to bring a court action to assert the nonexistence of a default or any other defense of Borrower to acceleration and sale. If the breach is not cured on or before the date specified in the notice, or if the "Maturity Date" as defined in the Note has occurred, Lender at its option may require immediate payment in full of all sums secured by this Mortgage without further demand and may invoke the power of sale and any other remedies permitted by applicable law. Lender shall be entitled to collect all expenses

incurred in pursuing the remedies provided in this paragraph 18, including, but not limited to, reasonable attorneys' fees.

If Lender invokes the power of sale, Lender shall cause a copy of a notice of sale to be served upon any person in possession of the Property. Lender shall publish a notice of sale and the Property shall be sold at public auction in the manner prescribed by applicable law. Lender or its designee may purchase the Property at any sale. The proceeds of the sale shall be applied in the following order: (a) to all expenses of the sale, including, but not limited to, reasonable attorneys' fees; (b) to all sums secured by this Mortgage; and (c) any excess to the person or persons legally entitled thereto.

19. Lender in Possession. Upon acceleration under paragraph 18 or abandonment of the Property, and at any time prior to the expiration of any period of redemption following sale of the Property, Lender (in person, by agent or by judicially appointed receiver) shall be entitled to enter upon, take possession of and manage the Property and to collect the rents of the Property including those past due. Any rents collected by Lender or the receiver shall be applied first to payment of the costs of management of the Property and collection of rents, including, but not limited to, receiver's fees, premiums of receiver's bonds and reasonable attorneys' fees, and then to the sums secured by this Mortgage.

20. Release. Upon payment of all sums secured by this Mortgage, Lender shall discharge this Mortgage without charge to Borrower. Borrower shall pay any costs of recordation.

21. Waiver of Homestead. Borrower hereby waives all right of homestead exemption in the Property.

22. Subject to First Mortgage. This Mortgage is subject and subordinate to the following mortgage (if this space is not completed, there is no senior mortgage):

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\_\_\_\_\_ (the "First Mortgage").

23. Interest on Advances. The interest rate on advances made by Lender under paragraph 6 shall not exceed the maximum rate allowable by applicable law.

24. Nonrecourse. The obligation of the undersigned is nonrecourse, and Lender's sole recourse for payment of the Note shall be to the Property and other security provided for in the Note, and the Lender shall not be entitled to any deficiency after foreclosure of this Mortgage.

IN WITNESS WHEREOF, Borrower has executed this Mortgage.

Witnesses: \_\_\_\_\_

Borrower

Bower

\_\_\_\_\_

Borrower

STATE OF MINNESOTA )

) ss.

COUNTY OF )

On this \_\_\_\_ day of \_\_\_\_\_, before me appeared \_\_\_\_\_, to me personally known to be the person(s) described in and who executed the foregoing instrument and acknowledged that \_\_\_\_ he \_\_\_\_ executed the same as \_\_\_\_\_ free act and deed.

\_\_\_\_\_

Notary Public

My Commission expires: \_\_\_\_\_

STATE OF MINNESOTA )

) ss.

COUNTY OF )

On this \_\_\_\_ day of \_\_\_\_\_, before me appeared \_\_\_\_\_, to me personally known to be the person(s) described in and who executed the foregoing instrument and acknowledged that \_\_\_\_ he \_\_\_\_ executed the same as \_\_\_\_\_ free act and deed.

\_\_\_\_\_

Notary Public

My Commission expires: \_\_\_\_\_

THIS INSTRUMENT WAS DRAFTED BY:

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Continue to Exhibit C

**Exhibit C**

FORM OF REQUEST

REQUEST FOR NOTICE OF FORECLOSURE

Pursuant to Minnesota Statutes § 580.032 and § 582.32

The City of Preston, a public government entity hereby requests notice of any foreclosure by advertisement or any voluntary foreclosure with respect to land (the "Land") located in \_\_\_\_\_ County, Minnesota, and legally described as follows:

The redeemable interest held by the City of Preston in the Land is a mortgage lien pursuant to a Rehabilitation and Creation of Apartment(s) Revolving Loan Mortgage dated \_\_\_\_\_ and recorded on \_\_\_\_\_ as Document \_\_\_\_\_ in the office of the \_\_\_\_\_ of \_\_\_\_\_ County, Minnesota.

All notices of foreclosure should be provided to:

City of Preston  
210 Fillmore Street W  
PO Box 657  
Preston, MN 55965  
Attention: Deputy Clerk and EDA Director

N WITNESS WHEREOF, GMHF has executed this Request as of the \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_.

City of Preston

By Its \_\_\_\_\_

STATE OF MINNESOTA )

) ss.

COUNTY OF \_\_\_\_\_ )

The foregoing instrument was acknowledged before me this \_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_, by \_\_\_\_\_, the \_\_\_\_\_ of the city of Preston, Minnesota, a government entity, on behalf of the city of Preston.

\_\_\_\_\_  
Notary Public

THIS INSTRUMENT WAS DRAFTED BY:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_