



MEMORANDUM

Executive Session

TO: Members of the Authority

FROM: Caren S. Franzini
Chief Executive Officer

DATE: April 25, 2011

SUBJECT: 255-267 Verona Avenue, LLC
Newark, New Jersey
\$916,666 SLP Loan/Delinquent

Proposal:

Accept a \$425,000 settlement from Sun National Bank (agent) on EDA's portion of the subject participation loan.

Background:

255-267 Verona Avenue, LLC is a real estate holding company formed to purchase the project property for ABC Baby, Inc. and Y & M Supplies, Inc., a retailer and wholesaler of baby products.

In August 2008, Sun National Bank approved a \$3,800,000 loan with a \$1,000,000 (26.3%) Authority participation to purchase the project property located at 255-267 Verona Avenue in Newark. The loan is secured by a first mortgage on the project property and a subordinate lien on corporate assets. The loan is also personally guaranteed by the 2 owners and the operating company.

This credit was transferred to Special Loan Management due to payment default and failure to submit financial information. Bank advised EDA staff that ABC Baby, Inc. had ceased operations and Y&M Supplies, Inc. is experiencing financial problems. Numerous attempts were made by bank and EDA staff to meet with the borrower to discuss the situation and loan defaults. The borrower was unresponsive and Sun National Bank made formal demand. Bank has initiated foreclosure and a law suit against the guarantors.

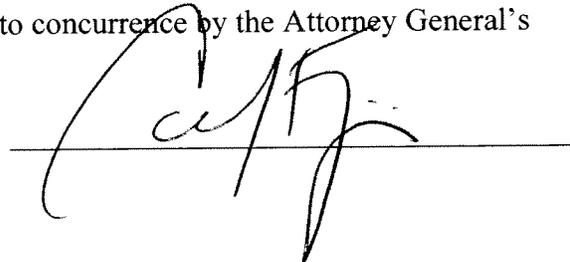
Last week Sun National Bank contacted EDA to advise us that it was selling off a portion of its criticized asset portfolio, inclusive of this loan. Because the bank's workout team was recently staffed, the sale of this loan was based only on the bank's \$2,500,000 share in this \$3,417,000 loan. The bank only recognized that EDA was involved in this transaction as it was preparing to close this sale. In an effort to close by the May 10th deadline, Sun Bank has asked EDA to settle its share of the loan for \$380,000 (\$.41/\$1.00). Because the bank requires this expedited approval, staff was able to negotiate an additional \$45,000 to bring the settlement to \$425,000.

While this offer only brings the offer to \$.46/\$1.00, this is the best offer the bank is willing to make. Although we could refuse this offer, Staff is recommending that the members accept this offer as full settlement for the loan for the following reasons:

1. Absent agreeing to this settlement, the bank would be forced to withdraw this asset from the loan sale and pursue foreclosure action. In the event of a foreclosure, the maximum potential recovery based on a recent appraisal which valued the property at \$2.5 million would be paid to satisfy the bank's \$2.5 million senior loan, and EDA would be foreclosed out of any recovery on its subordinate share of the loan.
2. The guarantors present no viable source of recovery and would likely file personal bankruptcy.

Recommendation:

Consent to the \$425,000 settlement as payment in full of EDA's \$916,666 share in this \$3,417,000 loan. Upon closing of the transaction, EDA will have no further recourse and the loan would be reclassified as written off without recourse, subject to concurrence by the Attorney General's office.

A handwritten signature in black ink, appearing to be 'J. Stesney', is written over a horizontal line.

Prepared by: Jerome T. Stesney