

Riverview Apts. viewing foreclosure



By Scott Tedrick

The Riverview Apartments has been under financial duress for a number of years, the federal Housing and Urban Development Authority(HUD) recently began foreclosure proceedings.

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By Scott Tedrick News Editor

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Granite Falls, Minn. -

It has an incredible view overlooking the Minnesota River. It is close to downtown, quiet, private, and provides low income housing. "It is an ideal living situation," In the words of mayor Dave Smiglewski – Yet none of these attributes will save the Riverview Apartments from its current financial dilemma.

"Foreclosure, liens; they're big words, commented Valley Promotions Chairman Jerry Ostensoe. "I can certainly understand how people who live [at the Riverview Apartments] are anxious about their future, but they have to understand that we have to deal with these things to resolve the situation."

When talking about \$680,000 of debt, resolution is not easy, but to have a desired goal agreed on by several integral parties is a significant and reassuring start. Valley Promotions, the City of Granite Falls and the United States Housing and Urban Development (HUD) have all indicated the same willingness and mutual desire to see to it that the Riverview Apartment tenants remain in their homes and that the complex is available for low income housing.

Valley Promotions

It was back in the early '70s that Valley Promotions was established as a non-profit by a group of active Granite Falls citizens so that they could solicit funds from HUD with the intention of constructing low income (Section 8) housing for fellow community members.

According to 20 year Valley Promotions board member Elroy Burgeson, once the Riverview Apartment Complex had been built for this purpose, it originally ran at or near full capacity and operated fiscally sound. Toward the middle of the 80s, however, the construction of competing entities such as Henry Hill Apartments as well as changing societal preferences began chipping away at Riverview Apartment's possible tenant clientele, and the occupancy began to decline.

By the mid-90s the problem began to get serious, but never to a degree that Valley Promotions defaulted on a mortgage payment. That, didn't happen until the board began taking steps that might have addressed the heart of problem.

Getting to the heart

Members of Valley Promotions board praise the quality of the Riverview Apartment facilities, but acknowledge that the more than thirty year old building needed, and continues to need updating.

Burgeson explained that in the more recent years mindsets have shifted, and the elderly are seeking larger living spaces with the option of multiple bedrooms. The Riverview Apartments, by today's standards, however, are comprised of 39 single, smaller living environments.

Back in 2004, the board caught wind of a Minnesota Housing Partnership (MHP) grant that would have assisted Valley Promotions in renovating the building to meet desires of the newer generation.

Upon submitting their application the board received the good news that they were going to be awarded the grant, but only after Valley Promotions obtained architectural renderings and commissioned other preliminary odds and ends.

Had they received the grant, the dollars acquired from the MHP would have reimbursed Valley Promotions for the expenses accrued while commissioning these services. Instead, unforeseen circumstances caused the situation to really turn sour, and the grant was pulled.

Receiving heartbreak

At the project's onset in the 70s, HUD was the initial financier of apartment complex, but later the Riverview Apartment's mortgage was sold to a private company with a guarantee from HUD that it would take back the mortgage if it ever was defaulted upon.

While Valley Promotions was undergoing the preliminary renovation work in '04 in anticipation of the grant, a problem arose when four apartment renters left in rapid succession. The affect of the departures strained the Valley Promotions budget to such a degree that for the first time the non-profit was late on a few months of its mortgage payments. When the payments weren't received, General Motors Acceptance Corporation (GMAC) – the private entity that purchased the mortgage from HUD – opted to turn the mortgage back over to HUD stating that the Riverview Apartment owners were in arrears.

This became extremely bad news for Valley Promotions once MHP received word of the situation and pulled the grant set aside for the non-profit.

Now, Valley Promotions was no longer going to receive the funds that would have permitted necessary renovations that might have addressed it's growing indebtedness. And instead, the non-profits debt was compounded by the obligations to the contractors who performed the renovation's preliminary work, which without grant had effectively become useless.

Yet things got worse.

The last straw

In order to payoff the pre-renovation expenses, Valley promotions negotiated payment schedules with all of the contractors, save one.

John Haffner, of the Willmar firm Cities Edge Architects, Inc., requested his fee be paid in full.

According Riverview Apartments general manager, Barb Johnson, all of the entities who established payment schedules have received full payment for their services, with the exception of Haffner. Johnson said that he would have been paid off by now too, had he accepted the proposed schedule.

According to a statement from Haffner's lawyer, Todd M Kleinhuisen of Willmar, "No viable payment schedule was ever proposed," which forced the architect to take steps to receive payment.

"Cities Edge has had little other alternative to receive some meaningful payment," he said.

Haffner has been attempting to receive payment for approximately \$49,000 in services for over four years, and with the addition of interest, attorney fees plus other expenses, that figure today is roughly \$65,000.

In March of '05, the architect applied a lien on the Riverview Apartments, then later that year initiated a

lawsuit. As a secondary creditor, however, Haffner was unable gain substantial leverage from that act. And it wasn't until he began proceedings to garnish the non-profits' finances with a July '07 judgement, which wasn't docketed until July of '09, that he was able to begin obtaining funds.

Kleinhuizen said that the fact that his client waited to docket the judgement – which hypothetically could have been completed that day – for a full two years was “a testament to [Haffner's] patience.”

With the ruling docketed, Haffner began garnishing the earnings of Valley Promotions in July, which effectively froze the finances of the non-profit. The act has left the board unable to pay its mortgage and has made it a substantial chore to keep up with day-to-day expenses.

It was at this point that HUD began foreclosure proceedings. Valley Promotions mortgage currently sits at \$480,000 with \$200,000 in interest.

Broad support

Ostensoe stated that he doesn't know the future, and admits that the situation could play itself out in a number of different ways. Nevertheless, he says that he and the rest of the Valley Promotions board are committed to protecting current and future tenants.

“Are biggest passion right now is to keep people in there homes and provide low income housing,” he said. Valley Promotions isn't alone in this regard, both the City of Granite Falls, the EDA and the federal HUD has stated their sentiment to be the same.

“What we hope is for a satisfactory outcome for the community and tenants, what exactly that means we don't know,” said Lisa Sherman, HUD Director of Project Management.

Simpson said that HUD is in the process of foreclosing on the property and will seek a new ownership entity for Riverview. She added that, as a matter of preference, HUD would like to sell the complex to either a civic or non-profit organization that will continue to provide low income, Section 8 housing.

Speaking on behalf of the city, Smiglewski said, “We certainly don't want to see it closed, we don't want to see the residents have to move ... I'm not sure what the city's role will be but I would like the community to be able to weigh in on the matter.” The mayor added that, “If that means we have to be a temporary, or longer term, owner, so be it. It's too important to risk becoming anything less than optimal housing.”

According to Simpson, the HUD Disposition Center, located in Texas, will manage the foreclosure. “When push comes to shove, they always find a buyer,” she said.

The question is: who will it be?

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