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To: Todd Fowler, Director of Special Assets
Florida Housing Finance Corporation

From: Scott M. Eberhard, Senior Credit Underwriter
First Housing Development Corporation

Date: July 23, 2015

Subject: Garden Walk Apartments (State Apartment Incentive Hurricane Recovery and Rebuilding Loan Program) SAIL 93HRR-008 / HC 94L-124 / 95L-004

First Mortgage Refinance / Subordination of SAIL Documents, SAIL LURA and ELIHA/ Extension of SAIL Term and SAIL LURA

Dear Mr. Fowler:

At the request of Florida Housing Finance Corporation ("FHFC"), First Housing has reviewed a request dated May 4, 2015 from Tacolcy Garden Walk, Inc. on behalf of Garden Walk Associates, Ltd. ("Borrower") requesting that FHFC approve the refinancing of the existing first mortgage loan, subordination of the existing State Apartment Incentive Loan ("SAIL") documents, SAIL Land Use Restriction Agreement ("LURA") and Housing Credit Extended Low-Income Housing Agreement ("ELIHA"), and extension of the SAIL loan term to be co-terminus with the new first mortgage all of which are requirements of the new first mortgage lender. The affordability period of the SAIL LURA will be extended by a length of time equal to the extension of the SAIL loan term.

On behalf of FHFC, First Housing has reviewed the request, performed certain due diligence, and formulated recommendations and conditions which are contained at the end of this report. For purposes of this analysis, First Housing has reviewed the following:

- Borrower Correspondence dated May 4, 2015
- Rule 67-48.010(15) and 67-48.0105(5)-(6) F.A.C.
- Garden Walk Associates, Ltd. Audited Financial Statements for Year Ended December 31, 2014

- Garden Walk Final Credit Underwriting Report dated May 27, 1994
- Borrower's Sources and Uses of Funds Schedule
- Neighborhood Lending Partners, Inc. Letter of Interest dated April 28, 2015
- State Apartment Incentive Loan ("SAIL") Promissory Note dated October 27, 1994
- SAIL Land Use Restriction Agreement ("LURA") dated October 27, 1994
- Extended Low Income Housing Agreement ("ELIHA") dated November 22, 1995
- Mortgage and Security Agreement dated June 30, 2005
- FHFC Past Due Report dated June 30, 2015
- FHFC Non-Compliance Report dated June 30, 2015
- FHFC Occupancy Report dated April 2015
- Annual Management Review and Physical Inspection

In addition, First Housing has had various conversations with FHFC staff and the Borrower's representative regarding the requests described above. Our findings are as follows:

Background

Garden Walk Apartments is an existing 228-unit multifamily development located at 21354 SW 112th Avenue Miami, Miami-Dade County, Florida 33189 and consists of nine (9) three-story apartment buildings. The Development contains sixty (60) one bed/one bath units, one hundred twenty (120) two bed/two bath units and forty-eight (48) three bed/two bath units.

The Borrower has a first mortgage payable in the original amount of $2,500,000 held by Wells Fargo Bank, National Association ("Wells Fargo"). The mortgage is secured by the rental property. The mortgage bears interest at the rate of 7.79%. Principal and interest are payable in monthly installments of $17,979 based on a 30-year amortization. The loan matured and became due on October 31, 2013. The Borrower entered into a Forbearance Agreement with Wells Fargo on December 30, 2013. The principal amount outstanding at that time was $1,718,868.92, plus accrued but unpaid interest and late charges. The Forbearance Agreement required monthly principal and interest payments of $17,979 and matured on January 31, 2014. As of December 31, 2014 outstanding principal is $1,621,608 and accrued interest is $10,878. The principal balance as of June 30, 2015 is $1,579,378.

Wells Fargo has not extended the maturity date and the loan is currently in maturity default as defined by the Forbearance Agreement, but the Borrower has asserted that the debt service payments are current. The Borrower has indicated that Wells Fargo has opted not to foreclose on the loan and is in negotiations to sell the mortgage.

The second mortgage SAIL Loan closed on October 24, 1994 in the amount of $3,110,901, is non-amortizing and bears a 9% interest rate per annum. It has a rate of 3% and additional interest of 6% with annual payments based on development cash flow. After four extensions, the current maturity of the loan is December 31, 2015. The principal outstanding on the loan at April 30, 2015 was $3,110,901. As of April 30, 2015, total accrued interest payable was $5,118,486.11 at the 9% accrual rate. As of April 30, 2015 total accrued interest payable at the base rate of 3% was $1,438,598.53.

The third mortgage loan was provided by Tacolcy Economic Development Corporation, an entity affiliated with the Borrower, in the original amount of $3,100,000. The mortgage bears interest at 1.5% which accrues but is only payable from available cash flow after operating expenses and superior debt service payments. The mortgage loan matured December 31, 2010 but has been extended several times. The current maturity date is December 31, 2016. The outstanding principal as of December 31, 2014 is $3,100,000 with accrued and unpaid interest of $910,404.

The Development is further restricted by terms and conditions detailed in various loan documents, including but not limited to the SAIL LURA and ELIHA. The SAIL LURA and ELIHA require 33% of the units (76 units) to be set-aside at or below 40% of the Area Median Income (“AMI”), 52% of the units (119 units) to be set aside at 50% of the AMI and 15% of the units (remaining units) to be set-aside at or below 60% of the AMI. The SAIL set-aside term is for 54 years and the HC set-aside term is for 50 years.

The combined Loan-To-Value (“LTV”) of the first mortgage and SAIL loan at the time of the original SAIL underwriting was 52.7%. First Housing has reviewed an Appraisal Report of Garden Walk Apartments, dated June 19, 2015 (“Report Date”), prepared by Walter Duke & Partners Commercial Real Estate Evaluation (“Walter Duke”) which indicated an “As Is” Market Value of the leased fee interest in the subject property of $8,900,000. The combined loan to value of the proposed new first mortgage bridge loan and SAIL Loan principal balance as of June 30, 2015 is 54.06% which is greater than the combined LTV as of the initial underwriting.

According to the FHFC June 30, 2015 Asset Management Non-Compliance Report, the development team has one non-compliance item outstanding.

- Landings – Homestead: Failure to make reasonable attempts to rent vacant units. The Development is being readied for complete rehabilitation. Last activity: 6/15/2015-Response from Management

According to the FHFC June 30, 2015, Past Due Report, the development team has the following past due items outstanding:

- Edison Terraces II – HOME 1992HR-003 HOME - Loan matured 9/3/14. Borrower's request for loan modification and extension approved at the December 11, 2014 FHFC Board meeting and document modification is in progress.

First Housing conducted an Annual Management Review and Physical Site Inspection of the development on October 30, 2014 and the development was found to be in non-compliance for several discrepancies. The discrepancies were resolved and the review was closed out. A Close-Out Letter was issued on April 2, 2015.

The FHFC Occupancy Report indicates the property was 100% occupied as of March 2015.

Refinancing Overview

The refinancing of the existing first mortgage loan is permitted under the underlying SAIL loan documents. However, FHFC Board approval is required. Rule 67-48.010(15) F.A.C. states that the “Board shall approve requests for mortgage loan refinancing only if Development Cash Flow is improved, the Development’s economic viability is maintained, the security interest of the Corporation is not adversely affected, and the Credit Underwriter provides a positive recommendation.”

First Housing has received and reviewed a term sheet from Neighborhood Lending Partners, Inc. (“NLP”) dated April 28, 2015. In summary, the Borrower has received a funding proposal for first mortgage bridge loan financing from NLP in an amount up to $1,700,000. The bridge loan will be secured by a first mortgage on the real estate, assignment of rents, leases, and reserves. The anticipated loan terms include interest-only payments for a term of 24 months. The interest rate will be fixed at LIBOR plus 500 basis points with a floor of 5.25% during the term of the loan. The maximum loan to value is 80% based on the stabilized appraised value.

NLP conditions will require that FHFC execute a Subordination Agreement of the SAIL Loan and extend the SAIL Loan term to be co-terminus with the new first mortgage. NLP will also require certain subordinate loan document amendments to conform to their standards. The SAIL LURA and ELIHA must also be subordinated, as applicable, to certain NLP documents.

Annual debt service for the refinanced new first mortgage bridge loan is currently estimated to be $89,250 which is $74,592 less than the $163,842 in current first mortgage and fees debt service. The SAIL Loan is currently in a subordinate lien position behind an original principal balance first mortgage of $2,500,000. The refinanced new first mortgage bridge loan is anticipated to be in the amount of $1,700,000. The amount of the new first mortgage will payoff the existing first mortgage loan balance and fund related financing costs.

The proposed first mortgage loan is for a term of two (2) years. This exposes the SAIL loan to interest rate risk should the Borrower be unable to refinance the first mortgage loan after 2 years. The Borrower has indicated that the 2-year loan term is bridge financing to allow time to arrange permanent bond loan financing and re-syndication of Housing Credits to ensure the units remain affordable.

It should be noted that when the Borrower arranges permanent financing, this transaction will be re-underwritten. At that time, the proposed financing structure will need to be compared with the original credit underwriting report dated May 27, 1994 as the bridge loan financing is only a short-term stop gap measure and was never contemplated for long term financing.

Overall Source and Use of Funds

The Borrower has provided First Housing with an estimate of the overall sources and uses of funds:

Sources		
NLP Bridge Loan	$	1,700,000
Total Sources	$	1,700,000
Uses		
Debt Payoff		
Wells Fargo Loan Principal	$	1,579,378
Total Payoff Amount	$	1,579,378
Closing Fees		
Wells Fargo Closing Fees	$	34,000
Lender Origination Fee	$	17,000
Legal Borrower	$	25,000
Legal - Lender	$	4,000.00
Title Premium & recording	$	25,622
Consultant Fee	$	15,000
Total Closing Fees	$	120,622
Total Uses	$	1,700,000
Excess Funds	$	-

1. These costs are based on estimates provided by the Borrower which appear reasonable at this time. The final sources and uses will be verified again prior to closing.

Summary and Recommendation

First Housing concludes that conditions for refinancing approval, as set forth in Rule 67-48.010(15) and 67-48.0105(5)-(6) F.A.C. have been met, subject to the conditions below. Proceeds of the refinancing will be utilized to satisfy the existing first mortgage loan and to pay related financing costs. Therefore, First Housing recommends that FHFC consent to and approve the refinancing of the existing first mortgage loan (in and amount up to $1,700,000), subordination of the SAIL Documents, SAIL LURA and the ELIHA (as applicable) to the new first mortgage, extension of the SAIL term to be coterminous with the new first mortgage, all of which meet the requirements of the new first mortgage lender, and extension of the SAIL LURA affordability period by a length of time equal to the extension of the SAIL term and modification of any other loan documents as required to effectuate the refinancing, subject to the following:

1. Review and approval of all loan documents consistent with the terms outlined above by FHFC and its legal counsel.

2. Review of final loan terms and confirmation that all requirements set forth in F.A.C. Rule 67-48.010(15) for approval have been met.

3. Payment of the required proportionate amount of the SAIL, if any.

4. Payment of outstanding SAIL accrued interest, as determined by Servicer and approved by FHFC.

5. Consent of the HC equity provider.

6. Satisfactory resolution of any outstanding past due and noncompliance items.

7. Payment of any outstanding arrearages to the Corporation, its legal counsel, Servicer or any agent or assignee of the Corporation for past due issues applicable to the development team (Applicant or Developer or Principal, Affiliate or Financial Beneficiary, as described in 67-48.0075 (5) F.A.C., of an Applicant or a Developer).

8. Prepayment of any required compliance monitoring and servicing fees, if applicable.

9. Confirmation of refinancing fees and closing costs prior to closing in order to verify the SAIL pay down.

10. Receipt of a non-refundable extension fee of one tenth of one percent of the outstanding principal balance of the SAIL loan.

11. New permanent loan servicing fee on the extended SAIL loan term and compliance monitoring fees on extended SAIL LURA;

12. Extension of the SAIL LURA affordability period by a length of time equal to the extension of the SAIL loan term.

13. All other due diligence required by FHFC, its legal counsel and Servicer.

Prepared by:

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First Housing Development Corporation

EXHIBIT I – SAIL Pay Down Calculation

Original First Mortgage	$2,500,000
SAIL Loan	$3,110,901
Total	$5,610,901

Original SAIL loan divided by original total First Mortgage & SAIL loan = 0.5544

New first mortgage loan amount	$1,700,000
Current first mortgage payoff	$1,579,378
Increased loan amount before	$120,622
Eligible refinancing costs	$120,622
Increased loan amount after refi. costs	$0
Increase multiplied by 0.5544	$0
*TOTAL SAIL Paydown	**Not Applicable**

*Before confirming eligible refinancing costs.

FHDC

EXHIBIT II – Pro Forma

FINANCIAL COSTS:				Proforma	Per Unit	2014 Audit	Per Unit
OPERATING PRO FORMA							
INCOME:	Gross Potential Rental Income			$1,773,516	$7,779	$1,779,715	$7,806
	Other Income						
	Ancillary Income				$0		$0
	Miscellaneous			$51,000	$224	$50,919	$223
	Interest Income			$0	$0		$0
	Gross Potential Income			**$1,824,516**	**$8,002**	**$1,830,634**	**$8,029**
	Less:						
	Economic Loss	Percentage:		$0	$0	$11,648	$51
	Physical Vac. Loss	Percentage:	4.86%	$88,676	$389	$16,250	$71
	Collection Loss	Percentage:		$0	$0	$2,561	$11
Total Effective Gross Income				**$1,735,840**	**$7,613**	**$1,800,175**	**$7,896**
EXPENSES:	Fixed:						
	Real Estate Taxes			$189,962	**$833**	$99,658	**$437**
	Insurance			$0	**$0**	$90,304	**$396**
	Variable:						
	Management Fee	Percentage:	5.93%	$108,113	**$474**	$108,113	**$474**
	General and Administrative			$289,917	**$1,272**	$63,307	**$278**
	Payroll Expenses			$0	**$0**	$213,222	**$935**
	Utilities			$152,706	**$670**	$152,706	**$670**
	Marketing and Advertising			$0	**$0**	$13,388	**$59**
	Maintenance and Repairs/Pest Control			$478,924	**$2,101**	$266,897	**$1,171**
	Grounds Maintenance and Landscaping			$0	**$0**	$25,700	**$113**
	Other: Security			$0	**$0**	$186,326	**$817**
	Reserve for Replacements			$79,800	**$350**	$0	**$0**
Total Expenses				**$1,299,422**	**$5,699**	**$1,219,621**	**$5,349**
Net Operating Income				**$436,418**	**$1,914**	**$580,554**	**$2,546**
Debt Service Payments							
	First Mortgage -			$89,250	$391	$131,122	$575
	Second Mortgage -			$93,327	$409	$279,984	$1,228
	Third Mortgage -			$46,500	$204	$46,500	$204
	Other Fees - Agency/Trustee/Servicer			$0	$0	$32,720	$144
Total Debt Service Payments				**$229,077**	**$1,005**	**$490,326**	**$2,151**
Cash Flow after Debt Service				**$207,341**	**$909**	**$90,228**	**$396**
				Annual		Annual	
Debt Service Coverage Ratios							
	DSC - First Mortgage			**4.89**		**4.43**	
	DSC - Second Mortgage			**2.39**		**1.41**	
	DSC - All Mortgages and Fees			**1.91**		**1.18**	
Financial Ratios							
	Operating Expense Ratio			**75%**		**68%**	
	Break-even Economic Occupancy Ratio (all debt)			**84%**		**93%**	