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

From: Bill Metler, Senior Credit Underwriter
First Housing Development Corporation

Date: March 3, 2016

Subject: Oakdale Apartments

Tax Credit Assistance Program ("TCAP"), HOME Loan Program, and Tax Credit Exchange Program ("TCEP") (RFP 2009-04/2009-048CTX)

1st Mortgage Refinance / Subordination of the TCAP/HOME/TCEP Loan Documents & TCAP/HOME Land Use Restriction Agreement ("LURA") & TCEP Extended Low-Income Housing Agreement ("ELIHA")

First Housing Development Corporation of Florida ("First Housing") has reviewed a request dated January 7, 2016, from Royal American Development, Inc. ("RAD"), general partner of Oakdale Redevelopment, Ltd. ("Borrower"), requesting that Florida Housing Finance Corporation ("FHFC") approve the refinancing of the first mortgage and the subordination of the TCAP/HOME/TCEP loan documents and TCAP/HOME LURA and TCEP ELIHA to the new first mortgage. The Borrower intends to refinance with a first mortgage in the amount of $775,000 from Coastal Bank and Trust, a division of Synovus Bank ("CB&T"). The proceeds will be utilized to reimburse Royal American Financial, Inc. ("RAFI") for paying off the original first mortgage, satisfying the remaining subordinate loan to RAFI, and paying related closing costs.

On behalf of FHFC, First Housing has reviewed the request, performed certain due diligence, and formulated a recommendation. For purposes of this analysis, First Housing has reviewed the following:

- Credit Underwriting Report ("CUR"), dated January 14, 2010 and approved by the FHFC Board on January 22, 2010.

- A Credit Underwriting Update Letter recommending approval of changes to the first mortgage and overall financing structure dated June 7, 2010 and approved by the FHFC Board on June 18, 2010.

- Oakdale Apartments HOME Promissory Note, dated November 15, 2010.
- Oakdale Apartments TCAP Promissory Note, dated November 15, 2010.
- Oakdale Apartments TCEP Sub-award Promissory Note, dated November 15, 2010.
- TCAP/HOME LURA, dated November 15, 2010 and the First Amendment to TCAP/HOME LURA, dated June 10, 2011.
- TCEP ELIHA, dated November 15, 2010 and the First Amendment to TCEP ELIHA, dated June 10, 2011.
- The Borrower's Audited Financial Statements for the year ended December 31, 2014 and December 31, 2013.
- Annual Management Review, dated February 9, 2016.
- Commitment Letter, dated December 17, 2015, from CB&T.
- FHFC Past Due Report dated February 16, 2016.
- FHFC Noncompliance Report dated December 30, 2015.
- FHFC Occupancy Report.

<u>Background</u>

Oakdale Apartments is an existing 48 unit garden style apartment development consisting of twenty-four (24) two-bedroom one-bathroom units and twenty-four (24) three-bedroom two-bathroom units. The development is located at 226 North First Street DeFuniak Springs, Walton County, Florida 32433. The Development is supported with a Project-Based Section-8 rental contract effective through July 2021.

The original approved financing structure included an $837,867 first mortgage from Grandbridge Financial ("Grandbridge"); however, there was an existing HUD insured mark to market loan on the property in the amount of $327,062 that contained a lock-out provision which prohibited prepayment prior to June 1, 2011. The Borrower proposed to assume the existing HUD loan until such time that it could be paid off. Therefore, the Grandbridge loan was replaced by a loan from RAFI, an affiliate of the Borrower in the amount of $837,867 with a rate of 7.50%, for a term of fifteen (15) years after rehabilitation, amortized over thirty (30) years. The intent was to make funds available to pay off the HUD loan at the end of the lock out period ($327,062 held in escrow), and to provide funds in a third lien position to fill the gap caused by the inability to utilize the intended original first mortgage ($510,805).

As part of its approval, FHFC agreed to fully subordinate the TCAP loan to the RAFI loan if it is sold in an arms-length transaction to a financial institution acceptable to FHFC and the terms of the loan remain the same or are changed to more favorable terms for the development, as determined by FHFC. In lieu of selling the loan, the Borrower paid off the HUD loan on November 30, 2012; thus, leaving the TCAP/HOME mortgage in first position and leaving the TCEP forgivable loan in third position.

The subject development is currently financed with three mortgages. The existing TCAP/HOME loan is a first mortgage payable to FHFC in the total amount of $1,432,291. The TCAP/HOME mortgage is supported by two separate notes. The TCAP Promissory Note, in the amount of $1,316,391, began accruing interest at a rate of 1.0% beginning on May 1, 2012. The HOME loan, in the amount of $115,900, began accruing interest at a rate of 1.5% beginning on October 1, 2010. Both payments are cash flow dependent and payments were made subordinate to payments on the RAFI second mortgage as part of the approval of the RAFI source of funding. The entire unpaid principal amount of both loans, together with all accrued and unpaid interest, will be due and payable on January 15, 2027. As of December 31, 2015, combined total accrued interest payable on both loans is approximately $48,000.

The existing second mortgage with a current balance of $465,539 is payable to RAFI. This note is written at a 7.5% interest rate with a maturity date of November 16, 2025.

The existing TCEP third mortgage, payable to FHFC, has been reduced to $4,040,952 as of December 31, 2015. Principal on this mortgage is forgiven at an annual rate of 6.67% for the first fifteen years as long as the development stays in compliance with the ELIHA. The current sources are depicted below:

Permanent Sources	Lender	Amount	Term Yrs.	Amort. Yrs.	Interest Rate	Annual Debt Service
First Mortgage	FHFC TCAP and HOME	$1,432,291	15	30	1.71%	$24,448
Second Mortgage	RAFI	$465,539	15	15	7.50%	$56,822
Third Mortgage	TCEP	$4,408,562	15	0	0.00%	$0
Unsecured Note	RAFI	$327,062	15	15	7.50%	$36,382
		$6,633,454				$117,652

Operation of the subject is restricted by terms and conditions detailed in various loan documents, including but not limited to TCAP/HOME LURA and TCEP ELIHA.

The TCAP/HOME LURA and their amendments require the following set asides for a term of fifty (50) years:

- 10% of the units (5 units) set aside at or below 40% Area Median Income ("AMI") ELI
- 90% of the units (remaining units) set aside at or below 60% AMI
- 20% of the HOME-Assisted Units (1 unit) set aside at or below 50% AMI
- 80% of the HOME-Assisted Units (1 unit) set aside at or below 60% AMI

The TCEP ELIHA and amendments require the following set asides for a term of fifty (50) years:

- 10% of the units (5 units) set aside at or below 40% AMI
- 90% of the units (remaining units) set aside at or below 60% AMI

The development team was not reported on the February 16, 2016 FHFC Past Due Report but was listed on the FHFC Asset Management Noncompliance Report dated December 30, 2015, for the following item:

Three Rivers MMRB (2015B)/SAIL (2014-327B)/HC (2015-505C)/ELI for failure to provide unit features, failure to provide unit amenities. (Rehabilitation of development not yet complete)

Based on a rent roll dated January 11, 2016, occupancy was 79.2%. This is a significant decrease, since the average occupancy during January 2015 to October 2015 was 94.38%, according to FHFC's occupancy report. The Borrower indicates that this decrease was temporary and that current occupancy is back up to 92%, with several new tenant applications being processed.

The Annual Management Review, conducted on January 7, 2016, found the property to be in non-compliance due to a Notice of Non-Compliance being issued on February 9, 2016 with a required acknowledgment response due by February 19, 2016. A follow-up notice was sent on February 22, 2016. An acknowledgment response was received on February 22, 2016. The Borrower has since indicated that the damaged unit has been repaired and re-leased, however, evidence of same has not been provided to FHFC or the Servicer as of the date of this report.

Refinancing Overview

First Housing reviewed an executed Letter of Intent ("LOI") dated December 17, 2015 from CB&T, A Division of Synovus Bank to provide a permanent First Mortgage of up to $775,000. The LOI term sheet indicates a 5.0% fixed interest rate for a five year term with payments based on a 20 year amortization schedule. The LOI requires a minimum debt service coverage ratio of no less than 1.30x including the existing TCEP and TCAP/HOME mortgages, if applicable. The loan will have an early termination fee for the first three years calculated as a percent of the loan balance as follows: year one, 3%; year two, 2%; and year three, 1%.

The amount of the new first mortgage will be used to reimburse RAFI for the funds used to pay off the initial HUD first mortgage, pay off the existing second mortgage to RAFI and to cover closing costs. Additional equity will be provided by the Borrower to cover any shortfall. CB&T conditions will require that FHFC execute a Subordination Agreement for the TCAP/HOME/TCEP loans including the existing LURA and ELIHA. The proposed list of sources follows:

Permanent Sources	Lender	Amount	Term Yrs.	Amort. Yrs.	Interest Rate	Annual Debt Service
First Mortgage	Coastal Bank and Trust	$775,000	5	20	5.00%	$61,376
Second Mortgage	FHFC TCAP and HOME	$1,432,291	15	0	1.71%	$24,448
Exchange Equity	FHFC-TCEP	$4,040,952	N/A	N/A	N/A	$0
		$6,248,243				$85,824

When the June 7, 2010 Credit Underwriting letter was approved, it was contemplated that RAFI would sell its loans to a third party financial institution acceptable to FHFC and that FHFC would subordinate the TCAP/HOME loan, placing it back into second lien position. The Borrower is requesting that FHFC allow this proposed refinance and payoff of the RAFI loans, in lieu of the option to sell the loans to a third party financial institution. The CB&T Loan would be in first lien position, followed by the combined TCAP/HOME Loan in second lien position, and the forgivable TCEP Loan in third lien position.

Overall Sources and Uses of Refinancing First Mortgage:

New Mortgage Proceeds	$775,000
Borrower's Cash Equity	$50,000
Total Sources	**$825,000**
Estimated Transaction Costs	
Reimburse First Mortgage Payoff to RAFI	$309,461
Anticipated Closing Costs	$50,000
Payoff remaining loan to RAFI	$465,539
Total Uses	**$825,000**
Cash Out	$0

These costs are based on estimates provided by the Borrower which appear reasonable at this time.

Summary and Recommendation

First Housing has determined that the total debt will be less than what was originally approved and that this request meets the intention of the replacement of the temporary funding contemplated in the June 7, 2010 Credit Underwriting Update Letter. First Housing recommends that FHFC approve the refinancing of the first mortgage loan and subordination of the TCAP/HOME/TCEP loan documents, TCAP/HOME LURA, TCEP ELIHA 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 and approval of final loan terms for the new first mortgage.

3. Borrower shall agree to maintain all set-asides and other requirements of the TCAP/HOME/TCEP Loan Documents, TCAP/HOME LURA and TCEP ELIHA.

4. Confirmation of refinancing fees and closing costs prior to closing.

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

6. 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).

7. Receipt of non-refundable renegotiation fees equal to one half of one percent (0.5%) of the outstanding principal loan balances of the TCAP and HOME loans prior to or on the date of closing.

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

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

Prepared by:

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Reviewed by:

Ed Busansky
Senior Vice President

EXHIBIT 1: Projected First Year Pro Forma:

FINANCIAL COSTS:		2014 Audited Financials	2014 Audited Financials per unit	2015 Unaudited	2015 Unaudited per unit	2016 projected Pro Forma	2016 projected Pro Forma per unit
OPERATING PRO FORMA							
INCOME:	Gross Potential Rental Income	$390,141	$8,128	$426,240	$8,880	$430,560	$8,970
	Other Income	$2,363	$49	$3,083	$64	$1,952	$41
	Miscellaneous		$0	$980	$20	$1,000	$21
	Gross Potential Income	$392,504	$8,177	$430,303	$8,965	$433,512	$9,031
	Less:						
	Physical Vac. Loss Percentage: 8.00%	$0	$0	$30,303	$631	$34,680	$723
	Collection Loss Percentage: 0.00%	$0	$0	$1,476	$31	$0	$0
Total Effective Gross Income		$392,504	$8,177	$398,524	$8,303	$398,832	$8,309
EXPENSES:	Fixed:						
	Real Estate Taxes	$23,391	$487	$20,498	$427	$21,065	$439
	Insurance	$29,332	$611	$29,992	$625	$34,432	$717
	Variable:						
	Management Fee Percentage: 7.4%	$29,125	$607	$29,725	$619	$29,490	$614
	General and Administrative	$30,612	$638	$28,061	$585	$28,900	$602
	Payroll Expenses	$99,607	$2,075	$38,223	$796	$64,660	$1,347
	Utilities	$36,137	$753	$42,360	$883	$44,700	$931
	Maintenance and Repairs/Pest Control	$72,896	$1,519	$111,095	$2,314	$29,700	$619
	Grounds Maintenance and Landscaping	$0	$0	$0	$0	$30,150	$628
	Reserve for Replacements	$0	$0	$14,400	$300	$14,400	$300
Total Expenses		$321,100	$6,690	$314,354	$6,549	$297,497	$6,198
Net Operating Income		$71,404	$1,488	$84,170	$1,754	$101,335	$2,111
Debt Service Payments							
	First Mortgage - Coastal Bank and Trust	$0	$0	$0	$0	$61,376	$1,279
	Second Mortgage - RAFI	$36,252	$755	$36,252	$755	$0	$0
	Second Mortgage - TCAP/HOME	$24,448	$509	$24,448	$509	$24,448	$509
	Third Mortgage - RAFI	$0	$0	$36,382	$758	$0	$0
	Other Fees - Agency/Servicer	$2,863	$60	$2,863	$60	$2,863	$60
Total Debt Service Payments		$63,563	$1,324	$99,945	$2,082	$88,687	$1,848
Cash Flow after Debt Service		$7,841	$163	-$15,775	-$328.65	$12,648	$263.49
				Annual		Annual	
Debt Service Coverage Ratios							
	DSC - First Mortgage	-		-		1.65	
	DSC - First & Second Mortgage	1.97		2.32		1.65	
	DSC - First, Second & Third Mortgage	1.18		0.87		1.18	
	DSC - All Mortgages and Fees	1.12		0.84		1.14	
Financial Ratios							
	Operating Expense Ratio	81.81%		78.88%		74.59%	
	Break-even Economic Occupancy Ratio (all debt)	98.00%		96.28%		89.08%	

Notes to Operating Pro Forma:

1. The pro forma is based on the Borrower's projections and appear reasonable to the underwriter.

2. The Development is supported with a Project-Based Section-8 rental contract effective through July 2021.

3. The TCAP and HOME loans are non-amortizing, interest only, soft pay notes.

4. FHFC pays the ongoing fees on the HOME portion of the combined second mortgage and the Borrower pays the ongoing fees for the TCAP Loan portion.

5. The third mortgage, which is held by an affiliate of the Borrower, has not required payments on its outstanding note.

6. The underwriter has reviewed the current HUD 9839-B management agreement dated December 13, 2011. This agreement is automatically renewable until cancelled by either party and reflects a 7.4% management fee based on 95% of gross potential rents.

7. Net rental income for the Development's 2016 budget is based on an anticipated 92% occupancy rate.