



Mr. Steve Auger  
Florida Housing Finance Corporation  
227 N. Bronough  
Suite 6000  
Tallahassee, Florida 32301

August 25, 2004

Re: Edisto Lake Apartments  
SAIL Loan 94S-042  
Refinance of 1<sup>st</sup> Mortgage

Dear Steve:

Edisto Group, Ltd., the owner of Edisto Lake Apartments, is requesting approval to refinance the 1<sup>st</sup> mortgage to benefit from current lower interest rates. The new 1<sup>st</sup> mortgage will be used to repay the existing 1<sup>st</sup> mortgage, closing costs (see Sources & Uses in Exhibit 1) and to reduce the amount of deferred interest on the SAIL Loan. The existing 1<sup>st</sup> mortgage is held by Keybank. The rate on the existing 1<sup>st</sup> mortgage is a variable rate estimated at approximately 5% as of the date of this report. The borrower has submitted a commitment letter from Branch Banking and Trust ("BB&T") dated April 20, 2004. The proposed new 1<sup>st</sup> mortgage will be in the amount of \$6,250,000 with a term of 5 years amortized on a 20-year schedule. The interest rate has been set by BB&T at 4.64% as of the date of this report. This rate was used for underwriting purposes and equates to an annual principal and interest payment of \$480,000. The interest rate will be tied to BB&T's prime rate adjusted from time to time by the bank and will have a ceiling of 9% and a floor of 4.25%. On behalf of Florida Housing Finance Corporation, we have reviewed information submitted by the borrower in order to determine the effects of this proposed transaction.

Edisto Lakes Apartments is an existing garden style community with 376 units. The improvements are comprised of 23 two and three story buildings situated on 90.9 acres (48.89 acres in use). The subject development is located at 10770 Clear Lake Loop, Ft. Myers, Florida. On-site amenities include a 3,000 square foot clubhouse/leasing center/laundry facility, three swimming pools, spa, a basketball court and a volleyball court. Unit amenities include major appliances, air conditioning, mini or vertical blinds and ceiling fans.

Florida Housing Finance Corporation issued a SAIL Loan to the subject development which closed on August 29, 1995 in the amount of \$2,882,781. The loan has an annual interest rate of 9%. The outstanding principal balance as of the date of this report is \$2,681,642. The outstanding balance is less than the full amount of the loan due to a 5% retainage that has yet to be released. Outstanding interest due on the SAIL Loan as of August 19, 2004 is \$1,767,208.56. The remainder of proceeds from the new 1<sup>st</sup> mortgage after repayment of the existing 1<sup>st</sup> mortgage, pay down of SAIL Loan interest resulting from Rule 67-48.010 in the amount of \$141,007 and all professional fees and expenses will be used to pay down the outstanding interest balance. First Housing is recommending the pay down due to the amount of outstanding interest. This amount is estimated to be \$327,839. The Land Use Restriction Agreement indicates that 20% of all units (76 units) must be set aside for tenants earning 40% or less of area median income (AMI). The remaining residential units must be set aside for tenants earning 60% or less of AMI. The SAIL loan has a 50 year set aside period which expires in October, 2046.

The borrower has submitted an appraisal from Cushman & Wakefield of Florida, Inc. dated March 17, 2004. The appraisal indicates a market value of \$16,000,000. The appraised market value provides for an LTV on the proposed 1<sup>st</sup> mortgage of 39% and an LTV on the proposed 1<sup>st</sup> mortgage and SAIL Loan combined of 57%. The 1<sup>st</sup> mortgage and SAIL Loan combined LTV of 57% is within the guidelines of the SAIL Rule of 100% LTV.

The 1<sup>st</sup> mortgage loan from Keybank, which closed on August 29, 1995, was in the amount of \$8,450,000. This loan has never converted from construction loan status to a permanent loan. The 1<sup>st</sup> mortgage and SAIL Loan combined LTV on August 29, 1995 was 70%. The original LTV of 70% is based on the original 1<sup>st</sup> mortgage loan amount of \$8,450,000 plus the SAIL Loan amount of \$2,882,781 divided by a market value of \$16,350,000 as indicated in an appraisal of the subject development from The Coastal Appraisal and Advisory Group dated October 3, 1994. Rule 67-48.010 states that on a refinance, the original combined LTV for the 1<sup>st</sup> mortgage and SAIL Loan must be maintained or improved. This Rule has been met by the proposed terms of the refinance.

Rule 67-48.010 states that on a refinance, a proportionate amount of the increase in the 1<sup>st</sup> mortgage must be used to reduce the outstanding SAIL Loan balance. The increase is based on the proposed new 1<sup>st</sup> mortgage amount of \$6,250,000 less the current outstanding amount on the 1<sup>st</sup> mortgage of \$5,482,604 as of August 1<sup>st</sup> less refinancing costs of \$213,125. Therefore, the increase equals \$554,271. The proportionate amount is derived by dividing the original SAIL Loan amount of \$2,882,781 by the sum of the original SAIL Loan and the original 1<sup>st</sup> mortgage of \$8,450,000. The quotient is .2544 or 25.44%. 25.44% of the increase in superior debt as defined by the SAIL Rule equals \$141,007. The remainder of proceeds from the new 1<sup>st</sup> mortgage after repayment of the existing 1<sup>st</sup> mortgage, pay down of SAIL Loan interest resulting from Rule 67-48.010 in the amount of \$141,007 and all professional fees and expenses will be used to pay down the outstanding interest balance. This amount is estimated to be \$327,839. Therefore, the SAIL Loan accrued interest must be reduced by \$141,007 plus \$327,839 for a total of \$468,846. The SAIL Rule states that interest outstanding is paid first and, if the

proportionate amount of the increase in superior debt exceeds outstanding interest due, then the principal balance of the SAIL Loan must be reduced with the remainder.

Rule 67-48.010 states that on a refinance, development cash flow must be improved. Development cash flow will be improved by a reduction in debt service as a result of refinancing the 1<sup>st</sup> mortgage. According to a modification of the existing Keybank 1<sup>st</sup> mortgage dated August 1, 2003, principal reduction payments of \$50,000 per month or \$600,000 per year are in effect until the mortgage is paid off. In addition, interest payments are estimated to be approximately \$21,000 per month or \$252,000 per year. The proposed 1<sup>st</sup> mortgage from BB&T will have initial principal and interest payments of \$40,000 per month or \$480,000 per year according to a commitment letter dated April 20, 2004.

Rule 67-48.010 states that the economic viability of the subject be maintained and that the security interest of the Corporation is not adversely affected. These conditions of the Rule have been met.

The last physical inspection of the subject development was performed in February of 2004. The balance the replacement reserve account is \$137,813.

### **Recommendation**

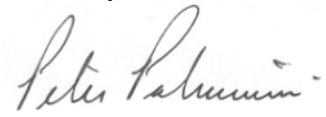
Based upon the review of the information submitted by the principals, and within the scope of this analysis as described herein, First Housing recommends the proposed refinance of the subject development.

### **Conditions**

1. The SAIL Loan principal balance will be capped at the current level of \$2,681,642.
2. Confirmation at closing that all fees due and owing FHFC are current.
3. Confirmation at closing that Edisto Lake Apartments and other developments owned by The Heritage Companies have no outstanding non-compliance or past due issues.
4. Approval of the form of the 1<sup>st</sup> mortgage by FHFC or its legal counsel.
5. It is a condition of this recommendation that the SAIL Loan accrued interest must be reduced by \$468,846.
6. The SAIL Loan shall maintain second priority lien after the substitution of the new First Mortgage.

Should you have any other questions or comments, please do not hesitate to call me.

Sincerely,

A handwritten signature in cursive script that reads "Pete Palmieri". The signature is written in black ink and is positioned above a horizontal line.

---

Pete Palmieri  
Senior Credit Underwriter

### Trailing 12 Months Operations

DESCRIPTION	June 2004 Trailing 12	Appraisal	Underwriter	Per Unit
<b>Revenue</b>				
Gross Potential Rental Revenue	\$2,388,148	\$2,495,256	\$2,388,148	\$6,351
Other Income				
Miscellaneous Income	\$235,459	\$205,000	\$236,000	\$628
Gross Potential Income	\$2,623,607	\$2,700,256	\$2,624,148	\$6,979
Less:				
Vacancy Loss	\$229,287	\$144,413	\$183,690	\$489
Collection Loss	\$43,397	\$26,624	\$26,241	\$70
Concessions	\$16,851		\$17,000	
<b>Total Effective Gross Revenue</b>	<b>\$2,334,072</b>	<b>\$2,529,219</b>	<b>\$2,397,216</b>	<b>\$6,376</b>
<b>Expenses</b>				
Fixed:				
Real Estate Taxes	\$125,400	\$125,000	\$125,000	\$332
Insurance	\$65,000	\$200,000	\$112,800	\$300
Variable:				
Management Fee @ 5%	\$124,070	\$126,461	\$119,861	\$319
General and Administrative	\$97,908	\$125,000	\$100,000	\$266
Payroll Expenses	\$426,948	\$430,000	\$430,000	\$1,144
Utilities	\$373,998	\$360,000	\$375,000	\$997
Marketing and Advertising	\$14,256	\$15,000	\$15,000	\$40
Maintenance and Repairs	\$300,361	\$350,000	\$300,000	\$798
Grounds Maintenance and Landscaping	\$30,158	\$50,000	\$31,000	\$82
Reserve for Replacements	\$75,200	\$56,400	\$75,200	\$200
<b>Total Expenses</b>	<b>\$1,633,299</b>	<b>\$1,837,861</b>	<b>\$1,683,861</b>	<b>\$4,478</b>
<b>Net Operating Income</b>	<b>\$700,773</b>	<b>\$691,358</b>	<b>\$713,355</b>	<b>\$1,897</b>
<b>Debt Service Payments</b>				
First Mortgage	\$480,000	\$480,000	\$480,000	\$1,277
SAIL Loan	\$80,449	\$80,449	\$80,449	\$214
<b>Total Debt Service Payments</b>	<b>\$560,449</b>	<b>\$560,449</b>	<b>\$560,449</b>	<b>\$1,491</b>
<b>Operating Income After Debt Service - Before Tax</b>	<b>\$140,324</b>	<b>\$130,909</b>	<b>\$152,906</b>	<b>\$407</b>
<b>Debt Service Coverage Ratios</b>				
Debt Service Coverage - First Mortgage	1.460	1.440	1.486	
Debt Service Coverage - First Mortgage + SAIL Loan	1.250	1.234	1.273	
<b>Financial Ratios</b>				
Operating Expense Ratio	70%	73%	70%	
Break-Even Ratio	84%	89%	86%	

**Sources & Uses**

<b>Sources</b>		<b>Uses</b>	
1st Mortgage	\$6,250,000	Keybank Payoff	\$5,532,604
Keybank Tax Escrow	\$97,986	BB&T Loan Fee	\$46,875
		DMM, Inc. Loan Fee	\$31,250
		Title & Recording	\$40,000
		Borrower Legal	\$55,000
		Lender Legal	\$15,000
		Keybank Legal	\$25,000
		Insurance Escrow	\$43,744
		Tax Escrow	\$89,667
		Outstanding SAIL Interest Paydown	\$468,846
<b>Total</b>	<b>\$6,347,986</b>	<b>Total</b>	<b>\$6,347,986</b>

**15 Year Proforma**

DESCRIPTION	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	YEAR 7	YEAR 8	YEAR 9	YEAR 10	YEAR 11	YEAR 12	YEAR 13	YEAR 14	YEAR 15
<b>Income</b>															
Gross Potential Rental Revenue	\$2,388,148	\$2,459,792	\$2,533,586	\$2,609,594	\$2,687,882	\$2,768,518	\$2,851,574	\$2,937,121	\$3,025,234	\$3,115,991	\$3,209,471	\$3,305,755	\$3,404,928	\$3,507,076	\$3,612,288
Other Income															
Miscellaneous Income	\$236,000	\$243,080	\$250,372	\$257,884	\$265,620	\$273,589	\$281,796	\$290,250	\$298,958	\$307,926	\$317,164	\$326,679	\$336,480	\$346,574	\$356,971
Gross Potential Income	\$2,624,148	\$2,702,872	\$2,783,959	\$2,867,477	\$2,953,502	\$3,042,107	\$3,133,370	\$3,227,371	\$3,324,192	\$3,423,918	\$3,526,635	\$3,632,435	\$3,741,408	\$3,853,650	\$3,969,259
Less:					\$0										
Vacancy Loss	\$183,690	\$189,201	\$194,877	\$200,723	\$206,745	\$212,947	\$219,336	\$225,916	\$232,693	\$239,674	\$246,864	\$254,270	\$261,899	\$269,755	\$277,848
Collection Loss	\$26,241	\$27,029	\$27,840	\$28,675	\$29,535	\$30,421	\$31,334	\$32,274	\$33,242	\$34,239	\$35,266	\$36,324	\$37,414	\$38,536	\$39,693
Concessions	\$17,000	\$17,510	\$18,035	\$18,576	\$19,134	\$19,708	\$20,299	\$20,908	\$21,535	\$22,181	\$22,847	\$23,532	\$24,238	\$24,965	\$25,714
Total Effective Gross Income	\$2,397,216	\$2,486,643	\$2,561,242	\$2,638,079	\$2,717,222	\$2,798,738	\$2,882,700	\$2,969,181	\$3,058,257	\$3,150,005	\$3,244,505	\$3,341,840	\$3,442,095	\$3,545,358	\$3,651,719
<b>Expenses</b>															
<b>Fixed:</b>															
Real Estate Taxes	\$125,000	\$130,000	\$135,200	\$140,608	\$146,232	\$152,082	\$158,165	\$164,491	\$171,071	\$177,914	\$185,031	\$192,432	\$200,129	\$208,134	\$216,460
Insurance	\$112,800	\$117,312	\$122,004	\$126,885	\$131,960	\$137,238	\$142,728	\$148,437	\$154,375	\$160,550	\$166,972	\$173,650	\$180,596	\$187,820	\$195,333
<b>Variable:</b>															
Management Fee	\$119,861	\$124,332	\$128,062	\$131,904	\$135,861	\$139,937	\$144,135	\$148,459	\$152,913	\$157,500	\$162,225	\$167,092	\$172,105	\$177,268	\$182,586
General and Administrative	\$100,000	\$104,000	\$108,160	\$112,486	\$116,986	\$121,665	\$126,532	\$131,593	\$136,857	\$142,331	\$148,024	\$153,945	\$160,103	\$166,507	\$173,168
Payroll Expenses	\$430,000	\$447,200	\$465,088	\$483,692	\$503,039	\$523,161	\$544,087	\$565,851	\$588,485	\$612,024	\$636,505	\$661,965	\$688,444	\$715,982	\$744,621
Utilities	\$375,000	\$390,000	\$405,600	\$421,824	\$438,697	\$456,245	\$474,495	\$493,474	\$513,213	\$533,742	\$555,092	\$577,295	\$600,387	\$624,403	\$649,379
Marketing and Advertising	\$15,000	\$15,600	\$16,224	\$16,873	\$17,548	\$18,250	\$18,980	\$19,739	\$20,529	\$21,350	\$22,204	\$23,092	\$24,015	\$24,976	\$25,975
Maintenance and Repairs	\$300,000	\$312,000	\$324,480	\$337,459	\$350,958	\$364,996	\$379,596	\$394,780	\$410,571	\$426,994	\$444,073	\$461,836	\$480,310	\$499,522	\$519,503
Grounds Maint and Landscaping	\$31,000	\$32,240	\$33,530	\$34,871	\$36,266	\$37,716	\$39,225	\$40,794	\$42,426	\$44,123	\$45,888	\$47,723	\$49,632	\$51,617	\$53,682
Reserve for Replacements	\$75,200	\$75,200	\$75,200	\$75,200	\$75,200	\$75,200	\$75,200	\$75,200	\$75,200	\$75,200	\$75,200	\$75,200	\$75,200	\$75,200	\$75,200
Total Expenses	\$1,683,861	\$1,747,884	\$1,813,548	\$1,881,801	\$1,952,747	\$2,026,490	\$2,103,142	\$2,182,818	\$2,265,638	\$2,351,727	\$2,441,213	\$2,534,231	\$2,630,922	\$2,731,429	\$2,835,906
<b>Net Operating Income</b>	<b>\$713,355</b>	<b>\$738,759</b>	<b>\$747,694</b>	<b>\$756,278</b>	<b>\$764,475</b>	<b>\$772,248</b>	<b>\$779,558</b>	<b>\$786,363</b>	<b>\$792,618</b>	<b>\$798,278</b>	<b>\$803,292</b>	<b>\$807,609</b>	<b>\$811,173</b>	<b>\$813,928</b>	<b>\$815,813</b>
<b>Debt Service Payments</b>															
Debt Service Coverage - 1st Mortgage	\$480,000	\$480,000	\$480,000	\$480,000	\$480,000	\$480,000	\$480,000	\$480,000	\$480,000	\$480,000	\$480,000	\$480,000	\$480,000	\$480,000	\$480,000
Debt Service Coverage - 1st Mortgage & SAIL Loan	\$80,449	\$80,449	\$80,449	\$80,449	\$80,449	\$80,449	\$80,449	\$80,449	\$80,449	\$80,449	\$80,449	\$80,449	\$80,449	\$80,449	\$80,449
Total Debt Service Payments	\$560,449	\$560,449	\$560,449	\$560,449	\$560,449	\$560,449	\$560,449	\$560,449	\$560,449	\$560,449	\$560,449	\$560,449	\$560,449	\$560,449	\$560,449
<b>Operating Income After DS - Before Tax Cash Flow</b>	<b>\$152,906</b>	<b>\$178,310</b>	<b>\$187,245</b>	<b>\$195,829</b>	<b>\$204,026</b>	<b>\$211,799</b>	<b>\$219,109</b>	<b>\$225,914</b>	<b>\$232,169</b>	<b>\$237,829</b>	<b>\$242,843</b>	<b>\$247,160</b>	<b>\$250,724</b>	<b>\$253,479</b>	<b>\$255,364</b>
<b>Debt Service Coverage Ratios</b>															
Debt Service Coverage - 1st Mortgage	1.486	1.539	1.558	1.576	1.593	1.609	1.624	1.638	1.651	1.663	1.674	1.683	1.690	1.696	1.700
Debt Service Coverage - 1st Mortgage & SAIL Loan	1.273	1.318	1.334	1.349	1.364	1.378	1.391	1.403	1.414	1.424	1.433	1.441	1.447	1.452	1.456
<b>Financial Ratios</b>															
Operating Expense Ratio	70%	70%	71%	71%	72%	72%	73%	74%	74%	75%	75%	76%	76%	77%	78%
Break-Even Ratio	86%	85%	85%	85%	85%	85%	85%	85%	85%	85%	85%	85%	85%	85%	86%