

---

# **Florida Housing Finance Corporation**

*Credit Underwriting Report*

## **Baptist Towers Apartments**

**EHCL - 2005-008E**

**Section A: Report Summary**

**Section B: EHCL Special and General Conditions**

**Section C: Supporting Information and Schedules**

---

**Prepared by**

**First Housing Development Corporation of Florida**

*Final Report*

**April 7, 2006**

**Baptist Towers Apartments****TABLE OF CONTENTS**

	<u>Page</u>
<b>Section A</b>	
Report Summary	
o Recommendation	A1-3
Overview	A4
Uses of Funds	A5
Operating Pro Forma	A6-7
<b>Section B</b>	
Special and General Conditions	B1-4
<b>Section C</b>	
Supporting Information and Schedules	
o Additional Development & Third Party Information	C1-4
o Borrower Information	
o Property Management Information	
15 year Pro Forma	C5

**Section A**  
**Report Summary**

**Recommendation**

First Housing recommends an EHCL Program loan in the amount of **\$200,000** for replacement of the existing emergency call and fire alarm systems.

<b>DEVELOPMENT &amp; SET-ASIDES</b>																																									
Location	1400 LeBaron Avenue Jacksonville, Duval County, FL 32207																																								
Number of Units/Unit Mix	<table border="1"> <thead> <tr> <th>Bed-rooms</th> <th>Baths</th> <th>No. of Units</th> <th>Unit Size (SF)</th> <th>HUD Rent Type</th> </tr> </thead> <tbody> <tr> <td>eff.</td> <td>1</td> <td>8</td> <td>390</td> <td>Sec 236</td> </tr> <tr> <td>1</td> <td>1</td> <td>33</td> <td>625</td> <td>Sec 236</td> </tr> <tr> <td>2</td> <td>1</td> <td>2</td> <td>1,015</td> <td>Sec 236</td> </tr> <tr> <td>eff.</td> <td>1</td> <td>1</td> <td>449</td> <td>Sec 236</td> </tr> <tr> <td>eff.</td> <td>1</td> <td>84</td> <td>390</td> <td>Sec 8</td> </tr> <tr> <td>1</td> <td>1</td> <td>66</td> <td>625</td> <td>Sec 8</td> </tr> <tr> <td><b>Total</b></td> <td></td> <td><b>194</b></td> <td></td> <td></td> </tr> </tbody> </table>	Bed-rooms	Baths	No. of Units	Unit Size (SF)	HUD Rent Type	eff.	1	8	390	Sec 236	1	1	33	625	Sec 236	2	1	2	1,015	Sec 236	eff.	1	1	449	Sec 236	eff.	1	84	390	Sec 8	1	1	66	625	Sec 8	<b>Total</b>		<b>194</b>		
Bed-rooms	Baths	No. of Units	Unit Size (SF)	HUD Rent Type																																					
eff.	1	8	390	Sec 236																																					
1	1	33	625	Sec 236																																					
2	1	2	1,015	Sec 236																																					
eff.	1	1	449	Sec 236																																					
eff.	1	84	390	Sec 8																																					
1	1	66	625	Sec 8																																					
<b>Total</b>		<b>194</b>																																							
Demographic Commitment	Elderly																																								
County Size	Large																																								
Development Category	Rehabilitation																																								
Development Type	12 story high-rise development that fronts the St. Johns River																																								
Year Built	1972																																								
Occupancy Rate	99%																																								
Parking	90 spaces																																								
Proposed use of EHCL Funds	To provide life-safety & building preservation improvements to the subject. Specifically, the replacement of the existing emergency call and fire alarm systems.																																								
Site Acre	1.5 acres																																								
Density	129 units per acre																																								
Zoning	“CRO” Commercial, Residential and Office which allows for a density of 20 dwelling units per acre which does not conform to zoning requirements however, the existing improvements are grandfathered-in as a legally non-conforming use.																																								
Flood Zone Designation	“AE” Flood insurance is required																																								
<b>DEVELOPMENT TEAM</b>																																									
Applicant/Borrower	The Towers of Jacksonville, Inc. A not-for-profit 501(C)3 organization 1400 LeBaron Avenue Jacksonville, FL 32207																																								
General Partner	N/A																																								
Limited Partner	N/A																																								

Guarantors	The Towers of Jacksonville, Inc.
General Contractor	Wescom Products for Healthcare, Inc. (Emergency call system install) Siemens Building Technologies, Inc. (Fire alarm system install)
Management Company	Owner managed
1 <sup>st</sup> Mortgage Lender	HUD/GMAC
FINANCING INFORMATION	
FHFC Programs	EHCL
Total 1 <sup>st</sup> Mtg. Loan Amount	\$3,475,300
Total 1 <sup>st</sup> mortgage balance (3/31/06)	\$1,388,822
"All in" Underwritten Interest Rate	8.50% (amortizing)
Term/Amort.	40 years / 40 years
EHCL Loan Amount	\$200,000
Interest Rate	1.00% (non-amortizing, simple interest; principal and interest deferred until maturity)
Term/Amort.	15 years / N/A
Appraised Value (Restricted by HUD Section 8 & 236)	\$5,125,000
Loan To Value – 1 <sup>st</sup> & 2 <sup>nd</sup> Loans Combined	31%
Projected Net Operating Income	\$199,991
Debt Service Coverage – 1 <sup>st</sup> Mortgage	1.99
Debt Service Coverage - All debt	1.92
FHFC EHCL Loan to Cost	80%
FHFC Assistance Per Unit	\$1,031

Does the Applicant have any FHFC Financed Developments on the Past Due/Non-Compliance Report?

According to the FHFC February 24, 2006, Asset Management Non-compliance Report, Baptist Towers has the following non-compliance item(s):

- None

The Past Due report dated February 21, 2006 indicates that Baptist Towers has the following past due item(s):

- None

Closing of the loan is conditional upon verification that any outstanding past due, and/or non-compliance items noted at the time of closing, have been satisfied.

Other Considerations: None

Mitigating Factors: None

Waiver Requests/Special Conditions: None

Additional Information:

The Board of Directors recently changed the name of the Corporation to The Towers of Jacksonville, Inc. The Underwriter has been provided with documentation indicating the name change has been registered with the Florida Division of Corporations and notification to the IRS and the HUD Jacksonville Field Office.


The first mortgage lender, HUD, will not approve the proposed EHCL Loan until satisfactory review of all loan documents pertaining to the proposed transaction. Further, HUD must approve and review all bids and specifications for the proposed improvements.

Recommendation:

First Housing recommends that an EHCL Program loan allocation of \$200,000 be awarded to The Towers of Jacksonville, Inc. for the replacement of the existing fire alarm and emergency call systems.

These recommendations are based upon the assumptions detailed in the Report Summary (Section A), and Supporting Information and Schedules (Section C). In addition, these recommendations are subject to the EHCL Special and General Conditions (Section B). The reader is cautioned to refer to these sections for complete information.

Prepared by:



Scott M. Eberhard  
Senior Credit Underwriter  
First Housing Development Corporation

Reviewed by:



Edward Busansky - SVP

## Overview

Sources of Financing	Lender	Amount	Interest Rate plus fees	Term	Annual Debt Service
EHCL Loan	FHFC	\$200,000	1.83%	15 years	\$3,653
Replacement Reserve Account	GMAC Commercial	\$50,115			
<b>Total Sources</b>		<b>\$250,115</b>			

Baptist Towers Apartments offers features and amenities typical of other high rise affordable housing developments built in the 1970's, including a unisex hair salon, courtyard, elevators, laundry room, library, recreation room, activities program, services coordinator and transportation. The development contains efficiency and one bedroom units that feature a range, refrigerator, air conditioner, carpet, mini blinds and heat lamps. There are two non-revenue producing units. One of which is used as the night manager's apartment, the other is used as a maintenance office. These are both categorized as non-revenue producing space by the Department of Housing and Urban Development ("HUD").

### Existing Finance Structure

The subject property is encumbered by a first mortgage held for the benefit of HUD in the amount of \$3,475,300 obtained June 9, 1970 with a maturity date of December 1, 2011. The 8.5% mortgage interest is offset by an interest subsidy and is payable to GMAC Commercial Mortgage Corporation. The current unpaid principal balance is \$1,388,822 as of March 31, 2006.

### EHCL Loan

The applicant has applied to FHFC for EHCL funds in the amount of \$200,000 to finance proposed upgrades to the life safety systems at Baptist Towers Apartments; specifically, replacement of the existing fire alarm and emergency call systems.

The EHCL loan will be non-amortizing with a 15 year term and an interest rate of 1.83% comprised of a base rate of 1% plus servicing fees of 0.25%. or the annual minimum of \$1,653. This loan will be in a second mortgage position. Both principal and accrued interest will be due at maturity. Loan servicing fees are due annually.

Note that, for HUD accounting purposes, the debt service (principal & interest) on this loan should be funded annually in the budget, in order to justify the higher rent that is required to be in effect to pay this loan off. Therefore, First Housing recommends that a reserve account be established, in which, the Applicant be required to submit monthly principal and interest payments, to be held in escrow for future pay-off of this loan.

Matching Funds

Additional financing sources to fund the proposed improvements are provided in the form of matching funds totaling \$50,115. The required matching funds will be funded from an existing replacement reserve account. A bank statement dated October 17, 2005 indicates that the replacement reserve account balance as of October 1, 2005 was \$155,176. Use of funds from the replacement reserve account is subject to HUD approval. Any cost overruns will also be funded from the replacement reserve account. The matching fund amount is equal to 25% of the requested loan amount, which meets the minimum 15% requirement set forth in FHFC Rule 67-32.

Uses of Funds

	<b>Applicant's Total Costs</b>	<b>Applicant's Revised Total Costs</b>	<b>Underwriter's Total Costs</b>
<b>Renovation Costs</b>			
Upgrading of existing Emergency Call System	\$166,865	\$166,865	\$166,865
Upgrading of existing Fire Alarm System	\$82,250	\$83,250	\$83,250
<b>Total Uses</b>	<b>\$249,115</b>	<b>\$250,115</b>	<b>\$250,115</b>

The building is currently provided with an existing Simplex fire alarm. The fire alarm was last certified in October 2005. Per a letter from the Applicant, dated November 15, 2005, "the existing fire alarm system does not meet current code and our emergency call system is antiquated and does not provide two-way communication. Both of these systems have been identified by the Real Estate Assessment Center (REAC) for the last three annual inspections of our facility as an urgent need for upgrading."

CASI concluded that the fire alarm and emergency call system appeared to be nearing the end of its useful life.

Siemens Building Technology has submitted a proposal dated July 12, 2005, which is for the replacement of the fire alarm devices and equipment. The cost of the new system is \$83,250. The completion timeline indicates 90 days from date of received purchase order. Siemens has indicated that the system will be installed and the project managed as to achieve all code requirements and provide a fully functioning Life Safety System throughout the duration of the renovation. Should a fire watch be deemed necessary, based upon the installation schedule, Siemens will provide such in partnership with the Baptist Towers maintenance staff.

Wescom Products for Healthcare, Inc. has submitted a proposal dated July 11, 2005, which is for the replacement of the emergency call system. The cost of the new system is \$166,865. The completion timeline indicates a project duration of 11 to 16 weeks.



## OPERATING PROFORMA

### *Baptist Towers*

DESCRIPTION	Appraiser	Per Unit
<b>Revenue</b>		
Gross Potential Rental Revenue	\$1,106,232	\$5,702
Other Income		
Miscellaneous Income	\$59,560	\$307
Gross Potential Income	\$1,165,792	\$6,009
Less:		
Vacancy & Collection Loss (5%)	\$58,290	\$300
<b>Total Effective Gross Revenue</b>	<b>\$1,107,502</b>	<b>\$5,709</b>
<b>Expenses</b>		
Fixed:		
Real Estate Taxes (Exempt)	\$0	\$0
Insurance	\$45,703	\$236
Variable:		
Management Fee (6%)	\$66,450	\$343
General and Administrative	\$72,750	\$375
Payroll Expenses	\$213,400	\$1,100
Utilities	\$160,050	\$825
Marketing and Advertising	\$7,760	\$40
Maintenance and Repairs	\$77,600	\$400
Grounds Maintenance and Landscaping	\$53,350	\$275
Security	\$19,362	\$100
Reserve for Replacements	\$151,860	\$783
Other - Tenant Programs	\$39,226	\$202
<b>Total Expenses</b>	<b>\$907,511</b>	<b>\$4,678</b>
<b>Net Operating Income</b>	<b>\$199,991</b>	<b>\$1,031</b>
<b>Debt Service Payments</b>		
First Mortgage - GMAC	\$100,283	\$517
Second Mortgage - EHCL and Fees	\$3,653	\$19
<b>Total Debt Service Payments</b>	<b>\$103,936</b>	<b>\$536</b>
		\$0
<b>Operating Income After Debt Service - Before Tax Cash Flow</b>	<b>\$96,055</b>	<b>\$495</b>

<b>Debt Service Coverage Ratios</b>	
Debt Service Coverage - First Mortgage	1.99
Debt Service Coverage - All Mortgages & Fees	1.92

<b>Financial Ratios</b>	
Operating Expense Ratio	82%
Break-even Ratio	87%

## Notes to the Operating Pro Forma and Ratios:

1. Gross Potential Rental Revenue is based upon 2005 restricted rents less utility allowance on the affordable units as required by HUD's Section 236 and 8 Programs.

Jacksonville MSA (Clay, Duval, Nassau, St. Johns)

Bed-rooms	Baths	No. of Units	Unit Size (SF)	HUD Rent Type	HUD Rent	Applicant Rent	Underwriter Rents	Annual Rents
eff.	1	8	390	Sec 236	\$494	\$494	\$494	\$47,424
1	1	33	625	Sec 236	\$477	\$477	\$477	\$188,892
2	1	2	1,015	Sec 236	\$588	\$588	\$588	\$14,112
eff.	1	1	449	Sec 236	\$409	\$409	\$409	\$4,908
eff.	1	84	390	Sec 8	\$434	\$434	\$434	\$437,472
1	1	66	625	Sec 8	\$522	\$522	\$522	\$413,424
<b>Total</b>		<b>194</b>						<b>\$1,106,232</b>

2. Based upon operating data from comparable properties, third party reports (primarily a subject self-contained appraisal), and the credit underwriter's independent due diligence; First Housing represents that, in our professional opinion, estimates for rental income, vacancy and loss allowances, other income, and operating expenses fall within a band of reasonableness.
3. The 5% vacancy/collection loss rate is based on First Housing's estimate of sustainable economic occupancy. The appraiser used a 5% vacancy/collection loss rate. Average occupancy for 2005 was 99.7%.
4. Miscellaneous Income, including Application Fees, Pet Fees, Late Fees, Laundry Income Cancellation Fees, Forfeited Deposits, Vending Income and income from other miscellaneous sources, was underwritten at \$307 per unit per year based on the appraiser's estimate.
5. The Appraiser's estimate of expenses was utilized for payroll, utilities, marketing, repairs and maintenance and landscaping, and Insurance.
6. The Towers of Jacksonville, Inc., is a Florida not-for-profit and 501(c)(3) tax-exempt corporation, therefore, the Subject Property will be exempt from real estate taxes.
7. Annual Replacement Reserve deposit requirements are determined by HUD.

**Section B**

**EHCL Program Special and Loan Conditions**

## Special Conditions

This recommendation is contingent upon the review and approval of the following items by First Housing and FHFC **at least (2) weeks before closing**. Failure to receive approval of these items within this time frame may result in postponement of the closing date.

1. HUD approval of the 15% match, if match will be funded from existing replacement reserve account.
2. If a reserve account is required, HUD approval will be required to establish a reserve account into which the applicant submits monthly principal and interest payments, to be held in escrow for future satisfaction of the EHCL Loan.
3. CASI is to act as construction inspector during the construction phase.

## General Conditions

This recommendation is contingent upon the review and approval of the following items by First Housing and FHFC **at least (2) weeks before closing**. Failure to receive approval of these items within this time frame may result in postponement of the closing date.

1. Building permits and any other necessary approvals and permits required to implement the improvements or a letter from the local permitting and/or approval authority stating that all necessary permits and approvals will be issued upon receipt of applicable fees. If a letter is provided, copies of all permits will be required as a condition to the first post-closing draw.
2. Final sources and uses of funds schedule, itemized by source and line item, in a format and in amounts approved by the Servicer, will be attached to the loan agreement as the approved development budget.
3. Final draw schedule to be approved prior to closing, itemized by line item and showing the sources of funds for monthly draws. Loan funds must be disbursed pro rata with the Borrower's contribution and all other loan funds.
4. Evidence of general liability, flood (if applicable), builder's risk, and replacement cost hazard insurance (as certificates of occupancy are received) reflecting Florida Housing as Loss Payee/Mortgagee, in coverage, deductibles and amounts satisfactory to Florida Housing.

This recommendation is contingent upon the review and approval of the following items by Florida Housing and its legal counsel **at least two (2) weeks** before closing. Failure to receive approval of these items, along with all other items listed on counsel's due diligence list, within this time frame may result in postponement of the closing date.

1. Documentation of the legal formation and current authority to transact business in Florida for the Borrower, the general partner/principal(s)/managers(s) of the Borrower, the guarantors, and any limited partners of the Borrower.

2. Title insurance pro-forma or commitment for title insurance with copies of all Schedule B exceptions, in the amount of the Loan naming FHFC as the insured. All endorsements required by FHFC shall be provided.
3. Florida Housing and its legal counsel shall review and approve all other lenders closing documents and the limited partnership or other applicable agreement. Florida Housing shall be satisfied in its sole discretion that all legal and program requirements for the Loan have been satisfied.
4. Evidence of general liability, flood (if applicable), builder's risk, and replacement cost hazard insurance (as certificates of occupancy are received) reflecting Florida Housing as Loss Payee/Mortgagee, in coverage, deductibles and amounts satisfactory to Florida Housing.
5. Receipt of a legal opinion from the Borrower's legal counsel acceptable to Florida Housing addressing the following matters:
  - a. The legal existence and good standing of the Borrower and of any partnership or limited liability company that is the general partner of the Borrower (the "GP") and of any corporation or partnership that is the managing general partner of the GP, of any corporate guarantor and any manager.;
  - b. Authorization, execution, and delivery by the Borrower and the guarantors, of all Loan documents;
  - c. The Loan documents being in full force and effect and enforceable in accordance with their terms, subject to bankruptcy and equitable principles only;
  - d. The Borrower's and the guarantor's execution, delivery and performance of the loan documents shall not result in a violation of, or conflict with, any judgments, orders, contracts, mortgages, security agreements or leases to which the Borrower is a party or to which the Development is subject to the Borrower's Partnership Agreement and;
  - e. Such other matters as Florida Housing or its legal counsel may require.
6. Such other assignments, affidavits, certificates, financial statements, closing statements and other documents as may be reasonably requested by Florida Housing or its legal counsel in form and substance acceptable to Florida Housing or its legal counsel, in connection with the Loan.
7. If applicable, construction contract or contracts pertaining to the improvements to be made with the loan.
8. Any other reasonable conditions established by Florida Housing and its legal counsel.

This recommendation is also contingent upon satisfaction of the following additional conditions.

1. The loan shall be in compliance with all provisions of Section 420.5087, Florida Statutes and Chapter 67-32, Florida Administrative Code (the statute and rule governing the EHCL Program).
2. The Applicant shall certify annually to the Corporation that the Development is providing Housing for the Elderly as defined in 67-32.002(9) and Section 420.503, Florida Statute.
3. Satisfactory achievement or completion of all conditions and requirements of the credit underwriting report.
4. Acceptance by the Borrower and execution of all documents evidencing and securing the Loan in form and substance satisfactory to FHFC, including, but not limited to, the Promissory Note, the Loan Agreement, and the Mortgage and Security Agreement, setting forth the terms of this commitment letter.
5. At all times there will be un-disbursed loan funds (collectively held by FHFC and any other sources) sufficient to complete the improvements. If at any time there are not sufficient funds to complete the improvements, the Borrower will be required to expend additional equity on the improvement costs or to deposit additional equity with FHFC which is sufficient (in FHFC's judgment) to complete the improvements before additional Loan funds are disbursed.
6. Construction Completion Guarantee from The Towers of Jacksonville, Inc.
7. Environmental Indemnity from The Towers of Jacksonville, Inc.
8. A mortgagee title insurance policy naming FHFC as the insured in the amount of the Loan to be issued at closing. Any exceptions to the title insurance policy must be acceptable to FHFC or its legal counsel.
9. Hazard Insurance escrow to be established and maintained by the First Lender or the Servicer.
10. Draw requests subsequent to the first draw request require lien releases from all parties filing notices to owner, acknowledging receipt of all payments due as of the date of the prior draw.
11. Evidence of work in place and amounts due contractors for work completed (or amounts due to Borrower as reimbursement for prior payments to contractors for completed work) is required prior to disbursement of any EHCL funds.
12. Receipt of a draw request and any reasonably required supporting documentation in the format prescribed by the Servicer and FHFC. Supporting Documentation may include lien releases, title insurance endorsements or other documentation.
13. EHCL Funds to be disbursed pro rata with Borrower's matching contribution funds.
14. Annual audited financial statements and operating statements for the development will be submitted to FHFC.

15. A Replacement Reserve Fund shall be maintained by the first mortgagee or Florida Housing, for the term of the loan at a minimum amount of \$783 per unit annually (total monthly deposit \$12,658) as required by the first mortgagee/HUD and as approved by the Servicer.
16. A debt service reserve fund shall be maintained by Florida Housing or its servicer for the term of the loan at a minimum amount of \$19 per unit annually for the repayment of principal, interest and fees of the EHCL loan.
17. FHFC or an authorized representative of the FHFC shall monitor compliance of all terms and conditions of the loan as provided in the loan documents.
18. Loan Servicing fees are to be paid by the Applicant to the Servicer pursuant to the contract in effect between the Corporation and the Servicer.
19. Any other reasonable requirements of the Servicer, FHFC or its legal counsel.