



October 15, 2014

Mr. Todd Fowler  
Florida Housing Finance Corporation  
City Centre Building  
227 North Bronough Street, Suite 5000  
Tallahassee, Florida 32301-1329

Re: San Marco Villas I (f/k/a Westlake I Apartments & Venetian Isles I)  
1<sup>st</sup> Mortgage Refinancing/Transfer of General Partner Ownership Interest/Subordination  
of MMRB LURA and HC ELIHA

MMRB 2002 Series D1 & D2/GUAR HUD Risk 066-98013/HC 2002-504C/SMI-15

Dear Mr. Fowler:

First Housing reviewed correspondence dated September 11, 2014 from Kenneth J. Cutillo, President of the BFIM Westlake I GP, Inc. (“General Partner”) of Trust Lake Park, Ltd. (“Borrower”) on behalf of Boston Financial, which included the following information and requests:

1. The correspondence indicates the intent of the Borrower to refinance the first mortgage for San Marco Villas I and simultaneously pay off the Florida Housing Finance Corporation (“FHFC”) issued bond financed first mortgage loan which is credit enhanced by the FHFC Guarantee Fund program with HUD Risk Sharing.
2. The Borrower requests FHFC approval for the transfer of the 0.1% current General Partner ownership interest in the Borrower to SP San Marco GP LLC, an affiliate of Southport Financial Services, Inc. and its principal, J. David Page. (See Exhibit A) Specifically, First Housing has been requested to determine if SP San Marco GP LLC has the prerequisite financial strength and experience to successfully own and operate the development.
3. The Borrower intends to prepay the existing Subordinate Mortgage Initiative (“SMI”) loan.

On behalf of FHFC, First Housing has reviewed the requests, 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 September 11, 2014
- Rule 67-48.010(15) F.A.C., Rule 67-21.017 F.A.C.
- Borrower Audited Financial Statements for Year Ended December 31, 2013
- Oak Grove Capital/Freddie Mac Mortgage Application
- General Partner correspondence dated December 8, 2010
- Borrower's Sources and Uses of Funds Schedule
- FHFC Past Due Report dated August 22, 2014
- FHFC Noncompliance Report dated August 22, 2014
- FHFC Occupancy Report dated July 2014
- Annual Management Review and Physical Inspection

In addition, First Housing has had various conversations with FHFC staff and the Borrower's representative regarding the proposed refinancing and general partner transfer. Our findings are as follows:

#### Background

San Marco Villas I is a 288 unit multifamily development located in Lake Park, Palm Beach County, Florida. The Borrower is a Florida limited partnership formed to own and operate San Marco Villas I. The current general partner with 0.1% ownership interest is BFIM Westlake I GP, Inc. The limited partner with 99.9% ownership interest is MMA Westlake LLC.

The development originally received a first mortgage MMRB financed loan issued by FHFC. On February 1, 2002, the Bonds were issued in two series (Tax Exempt Housing Revenue Bonds, 2002 Series D1 - \$14,665,000, and Taxable Housing Revenue Bonds, 2002 Series D2 - \$4,075,000) by FHFC totaling \$18,740,000. Proceeds from the sale of the Bonds funded a first mortgage note in the same amount. The loan bears interest at a rate of 6.65% and matures on February 1, 2042. The loan is collateralized by the Partnership's real and personal property. The

subject is credit enhanced by the FHFC Guarantee Fund with HUD Risk Sharing. As of August 31, 2014, the loan balance was \$17,035,000.

The second mortgage note, a State Housing Initiative Partnership Program Loan ("SHIP loan"), dated July 26, 2005, is held by the Housing Finance Authority of Palm Beach County in the original amount of \$200,000. The loan bears interest at a rate of 1%. The loan is repayable on or after December 31, 2007 to the extent of available cash flow as set forth in the SHIP Loan Agreement. The loan matures on December 31, 2021. The loan is collateralized by the Partnership's real and personal property. As of December 31, 2013, the loan balance was \$200,000.

The third mortgage note, a SMI loan, dated October 8, 2009, is held by FHFC, was advanced in eight quarterly payments of \$112,616. The loan bears interest at 5% and matures on October 15, 2019. Interest shall accrue from inception of the loan. Beginning on October 15, 2013, monthly payments of principal and interest shall begin based on a 20 year amortization. A balloon payment of all outstanding principal and accrued interest is due on October 15, 2019. The loan is collateralized by the Partnership's real and personal property. As of August 31, 2014, the loan balance was approximately \$864,742. The SMI loan must be paid in full at refinancing.

Operation of the subject is restricted by terms and conditions detailed in various loan documents, including but not limited to Florida Housing's MMRB LURA and HC ELIHA.

The MMRB LURA requires that 50% (144 units) of the units be set aside for tenants earning 60% or less of the Area Medium Income ("AMI") for a period that is 10 years past the later of 15 years after the date 50% of units are first occupied or until the bonds mature. The set-aside for the HC is 100% of the units for tenants earning 60% or less of AMI for a period of 30 years.

The development team was not reported on Florida Housing's August 22, 2014 Past Due Report. The proposed general partner, Southport Financial Services, Inc., had the following issue reported on the August 22, 2014 Asset Management Noncompliance Report:

- Palms West – HC & HOME – Failure to meet uniform physical condition standards for units.

Per the July 2014 FHFC occupancy report, the development was 98.26% occupied.

First Housing's Annual Management Review and Physical Inspection performed February 27, 2014, reported occupancy of 98% and the property was found to be in compliance. The review was closed out on June 20, 2014.

Refinancing Overview

First Housing reviewed a proposed loan term sheet from Oak Grove Capital (“OGC”) dated, July 28, 2014, for first mortgage refinancing originated by OGC and sold to Freddie Mac. A Freddie Mac refinancing pro forma indicates the existing first mortgage will be replaced with a new first mortgage of \$18,000,000. Terms include a maximum loan to value of 80%, not less than 1.25x debt service coverage ratio based on the final interest rate, an 84-month loan term, 12 months interest only followed by a 30 year amortization period, and a fixed interest rate equal to 188 basis points over the 7-Year U.S. Treasury Rate. As of September 18, 2014, the 7-Year U.S. Treasury Rate was 2.32% resulting in an “all in” rate of 4.20% which is a more favorable rate than the 6.65% existing financing rate.

Freddie Mac will also require certain document amendments to conform to Freddie Mac standards. The MMRB LURA and ELIHA must also be subordinated, as applicable, to certain Freddie Mac documents.

Annual debt service for the refinanced first mortgage loan is currently estimated to be \$1,056,277 which is \$260,099 less than the current annual debt service on the first mortgage and fees. Cash flow will be improved, the subject’s economic viability will be maintained, and Florida Housing’s risk associated with the Guarantee Fund Program will be eliminated. The refinanced first mortgage loan is anticipated to be in the amount of \$18,000,000. Florida Housing’s security position will not be adversely affected. The amount of the new first mortgage and trustee-held funds, will payoff the existing first mortgage loan balance, the SMI loan principal and interest and closing costs.

Overall Source and Use of Funds

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

<b>Sources</b>		
First Mortgage		18,000,000
BNY Bond Fund		463,000
<b>Total Sources</b>		<b>18,463,000</b>
<b>Uses</b>		
Outstanding Partnership Debt		17,035,000
SMI Loan Payoff		864,742
Prepayment Penalty / Yield Maintenance Penalty		0
Due Diligence Costs		20,500
Legal - Lender		17,500
Application Fee - Freddie Mac	0.10%	18,000
Origination Fee - Lender	1.00%	180,000
Legal - Borrower/Partnership		75,000
Legal Fees (Bond Counsel, Issuer Counsel, Trustee Counsel)		50,000
Capital Repair Escrow (Radon mitigation; immediate repairs)		140,000
Title and Recording	0.35%	63,000
<b>Total Uses</b>		<b>18,463,742</b>

<b>Net Distributable Proceeds/Borrower Cash Out</b>	<b>(742)</b>
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*Notes: Existing real estate taxes and replacement reserve escrows will be rolled into the new Freddie Mac loan.*

Note: These costs are based on estimates provided by the Borrower which appear reasonable at this time. This is essentially a no cash-out refinancing with the Borrower expected to contribute less than \$1,000 in equity at closing.

Proposed General Partner

The proposed general partner is an affiliate of Southport Financial Services, Inc. (“Southport”). Southport was formed in 1995, has its administrative headquarters in Tacoma, WA with satellite offices in Tampa, FL, Washington, D.C., and Richmond, VA. J. David Page is the President and sole shareholder. Since its inception, Southport has closed nineteen Mark to Market transactions and developed forty HC properties, twenty-three of which involved FHFC. First Housing has reviewed satisfactory bank, trade, credit references and financials for Southport and J. David Page. First Housing has years of experience and has underwritten numerous affordable housing transactions involving Mr. Page and Southport. We believe that Southport and J. David Page have the requisite experience and financial capacity to own and operate the subject development.

Management Company

The existing management company is Services – Taylor Made, Inc. (“STM”). There is no plan to change management of the development. STM is a Florida based full service property management firm that has been in business since 1991. STM was started after Robert and Kimberly Mosley had both worked in the property management industry for years with different

management companies. Both Robert and Kim started at the property level and worked their way up in the industry before starting STM in 1991. STM is currently approved by the FHFC Asset Management Department. Continued approval is subject to on-going performance.

### Summary

First Housing concludes that conditions for refinancing approval, as set forth in Rule 67-21.017 F.A.C. have been met, subject to the recommendations and conditions below. Further, proceeds of the refinancing along with the transfer of certain existing reserves held by the Trustee will be utilized to satisfy the existing FHFC Guaranteed first mortgage, SMI loan and pay related financing costs. Any shortfalls will result in an equity contribution requirement by the Borrower at closing.

### Recommendations

1. First Housing recommends the first mortgage refinancing subject to verification of the final loan terms prior to loan closing. The refinance is allowed under FHFC Rules, the terms provide for increased development cash flow when compared with the existing financing and the simultaneous pay off of the Guarantee Fund Program with HUD Risk Sharing first mortgage note reduces FHFC exposure and risk, as well as the payoff of the SMI loan.
2. First Housing recommends the approval of the transfer of the 0.1% current general partner ownership interest in the Borrower to SP San Marco GP LLC, an affiliate of Southport Financial Services, Inc. and its principle, J. David Page. First Housing has years of experience and has underwritten numerous affordable housing transactions involving Mr. Page and Southport. We believe that Southport and J. David Page have the requisite experience and financial capacity to own and operate the subject development.
3. First Housing recommends certain document amendments to conform to Freddie Mac standards. The MMRB LURA and ELIHA must also be subordinated, as applicable, to certain Freddie Mac documents.
4. Modification of any other loan documents required to effectuate the refinancing.

Closing of the transaction is subject to the following conditions:

1. Review and approval of all loan documents consistent with the terms outlined above by Florida Housing's legal counsel

2. Review of final loan terms and confirmation that all requirements set forth in Rule 67-21.017 for approval have been met
3. If the set-aside requirements in the MMRB Land Use Restriction Agreement are expired or have less than 12 months remaining, such agreement shall be extended for a minimum of two years from the date of closing
4. SP San Marco GP LLC and J. David Page to execute any assignment and assumption documents FHFC deems necessary to effectuate the ownership change, including but not limited to a Guarantee of Recourse Obligations and an Environmental Indemnity Agreement and any other existing guarantees
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 fees
9. Payment of a non-refundable MMRB transfer and assumption fee of \$2,500.
10. All other due diligence required by FHFC and its legal counsel.

Prepared by:



Scott M. Eberhard  
Senior Credit Underwriter  
First Housing Development Corporation

San Marco Villas I Comparative Pro Forma

	Developer 2014 Budget	2013 FHDC Analysis (Exhibit)	Underwriter	per unit
<b>Revenue</b>				
Gross Potential Rental Revenue	3,151,308	2,973,015	3,185,352	
Vacancy Loss	(189,078)	(274,537)	(159,268)	5.00%
Collection Loss	Included	0	(31,853)	1.00%
Rent Concessions	(30,756)	Included	Included	
Effective Gross Revenue (EGR)	2,931,474	2,698,478	2,994,231	
Laundry	43,953	0	0	
Tenant Charges	99,783	0	0	
Cable	0	0	0	
Interest	0	33,078	0	
Misc. Income	9,980	132,225	132,225	
<b>Total Effective Gross Revenue</b>	<b>3,085,190</b>	<b>2,863,781</b>	<b>3,126,456</b>	
<b>Expenses</b>				
Taxes	315,000	298,761	309,070	1,073
Insurance	238,610	222,141	222,141	771
Management Fees	123,408	108,657	123,559	3.95% 429
Administrative	90,500	277,805	277,805	965
Payroll	316,800	204,533	248,400	863
Utilities	220,545	236,050	236,050	820
Operating & Maintenance	259,200	442,423	306,922	1,066
Replacement Reserve	86,400	57,600	86,400	300
<b>Total Expenses</b>	<b>1,650,463</b>	<b>1,847,970</b>	<b>1,810,347</b>	<b>6,286</b>
<b>Net Operating Income</b>	<b>1,434,727</b>	<b>1,015,811</b>	<b>1,316,109</b>	
First Mortgage	1,053,757	1,156,215	1,056,277	
SHIP Loan	0	0	0	
SMI Loan	0	17,837	0	
Fees	0	160,161	0	
<b>Total Debt Service Payments</b>	<b>\$1,053,757</b>	<b>\$1,334,213</b>	<b>\$1,056,277</b>	
<b>Cash Flow Before Tax</b>	<b>380,970</b>	<b>(318,402)</b>	<b>259,832</b>	
<b>DSC</b>				
1st Mortgage & Fees	1.36	0.77	1.25	
All Mortgages	1.36	0.76	1.25	



# **SAN MARCO VILLAS I**

## **Borrower Organizational Chart**

**Trust Lake Park, LTD.,**  
**a Florida limited partnership**  
**EIN 65-1069431**

**General Partner .1%**  
**SP San Marco GP LLC,**  
**a Florida limited liability company**  
**EIN 47-1708585**

**Investor Limited Partner 99.9%**  
**MMA Westlake, LLC,**  
**a Delaware limited liability company**

**Special Limited Partner 0%**  
**SLP, INC.,**  
**a Massachusetts corporation**

**Manager**  
**J. David Page**

**Members**  
**J. David Page 80%**  
**Stephen W. Page 10%**  
**Paul W. Page 10%**