

SELTZER MANAGEMENT GROUP, INC.

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October 10, 2014

VIA EMAIL

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

RE: Clipper Bay – First Mortgage Refinancing/Subordination of MMRB LURA, ELIHA, SAIL LURA, SAIL and SAIL ELI Loan Documents/Extension of the SAIL and SAIL ELI Loan and SAIL LURA/Renegotiation of SAIL Terms
FHFC MMRB 2004 Series D/GUAR HUD Risk Sharing 067-98037/SAIL 2003-047BS/HC 2003-535C/SAIL ELI RFP 2011-05-18

Dear Mr. Fowler:

Seltzer Management Group, Inc. ("SMG" or "Seltzer") is in receipt of correspondence from Clipper Bay Associates, Ltd., ("Borrower") requesting that Florida Housing Finance Corporation ("FHFC" or "Florida Housing") approve the refinancing of the existing first mortgage loan, execute a Subordination Agreement of the existing State Apartment Incentive Loan ("SAIL"), SAIL Extremely Low Income ("ELI") Loan, Multifamily Mortgage Revenue Bond ("MMRB") Land Use Restriction Agreement ("LURA"), SAIL LURA, Housing Credits ("HC") Extended Low-Income Housing Agreement ("ELIHA") and the extension of the term of the SAIL and SAIL ELI Loan to be co-terminus with the new first mortgage loan, 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 term. The existing first mortgage loan was financed from proceeds of the sale of tax-exempt bonds issued by FHFC. The mortgage note is guaranteed by Florida Housing's Guarantee Program ("GP"). The Borrower intends to obtain financing from a HUD insured 223(f) program first mortgage loan originated by First Housing Development Corporation ("First Housing"), Tampa, Florida. Along with the transfer of certain existing reserves and escrows held by the Bond Trustee and funding of the SAIL ELI Loan, the refinanced first mortgage loan proceeds will be utilized to satisfy the existing first mortgage loan, to pay accrued SAIL interest and principal (if required) and pay related financing costs.

Borrower received subordinate SAIL and SAIL ELI Loan as follows:

- SAIL closed February 24, 2004, in the amount of \$2,000,000 that matures August 15, 2045
- SAIL ELI Loan closed June 10, 2014, in the amount of \$1,050,000 that matures June 10, 2029

RFP 2011-05 and Rule, 67-48.010(15) F.A.C., require that the refinancing of any loan superior to the SAIL or SAIL ELI Loan be approved by Florida Housing's Board of Directors. The refinancing of the first mortgage will require extensions of the SAIL and SAIL ELI Loan terms to be co-terminus with the new first mortgage loan, renegotiation of loan documents to reflect that the SAIL interest payment is based upon 75% of Available Cash Flow ("ACF"), the execution of Subordination Agreements, the extension of the SAIL LURA term equal to the additional time added to the SAIL term, the payment of all outstanding accrued interest as the new first mortgage limits future SAIL interest payments to 75% of surplus cash flow and any payments of deferred developer fee will be subordinate to the annual SAIL payment, if applicable, all of which require FHFC Board approval.

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

- Borrower Correspondence
- Original Credit Underwriting Reports:
 - MMRB/SAIL/HC Credit Underwriting Report dated November 25, 2003
 - SAIL ELI Credit Underwriting Letter/Report dated November 21, 2013
- Original Loan Documents:
 - SAIL \$2,000,000 Promissory Note, Mortgage and Security Agreement, and LURA, dated February 24, 2004
 - SAIL ELI \$1,050,000 Promissory Note, Mortgage and Security Agreement and Restrictive Covenants, and Loan Agreement, dated June 10, 2014
- Borrower Audited Financial Statements for the Year Ended December 31, 2013
- RFP 2011-05 and Rule 67-48.010(15) F.A.C.
- Borrower's United States Department of Housing and Urban Development ("HUD") Application Package and HUD Commitment, dated August 15, 2014
- Borrower's Sources and Uses of Funds
- FHFC Occupancy Report
- FHFC Past Due Report dated August 22, 2014
- FHFC Noncompliance Report dated August 22, 2014
- Annual Compliance Review and Physical Inspection dated as of May 13, 2014

In addition, SMG has had conversations and electronic communications with FHFC staff and Borrower's representative regarding the proposed refinancing. Our findings are as follows:

Background

Clipper Bay is a 276-unit apartment property located in Tampa, Hillsborough County, Florida. Borrower is a Florida Limited Partnership, formed September 24, 2001, to own and operate the subject development. The General Partner of Borrower is Cornerstone Clipper Bay, LLC, with a 0.01% ownership interest. The Investor Limited Partner is MMA Financial Warehousing, LLC, with a 99.99% ownership interest. MMA SLP, Inc., is a Special Limited Partner with 0.00% ownership interest. The Developer is Cornerstone Group Development, LLC, Coral Gables, Florida.

The subject development originally received FHFC MMRB first mortgage financing on February 24, 2004, through a \$12,680,000 bond issue consisting of Tax-Exempt Housing Revenue Bonds Series 2004D. Proceeds from the sale of the bonds funded the first mortgage note of \$12,680,000, which was guaranteed by the Florida Housing's GP with HUD Risk Sharing. The principal balance as of December 31, 2013, totaled \$11,700,000. The balance at the time of refinancing is estimated to be \$11,565,000.

Other funding sources include the \$2,000,000 SAIL, and \$1,050,000 SAIL ELI Loan. Terms of the SAIL include a 40-year loan term (co-terminus with the existing MMRB first mortgage loan) which is non-amortizing and an interest rate of 3.00%. Payment of interest is subject to ACF. Annual payments are required based upon all applicable fees. All outstanding unpaid interest and principal is due at maturity. As of December 31, 2013, accrued SAIL interest totaled \$425,696. Terms of the SAIL ELI include a 15-year loan term which is non-amortizing and an interest rate of zero percent (0%). Conditioned upon compliance with the SAIL ELI set-aside requirements and all other SAIL ELI program requirements, the

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principal amount of the note shall be reduced by 6.67% per year for the 15-year term of the SAIL ELI Compliance Period. The SAIL ELI loan is closed but not funded. Funding is anticipated to occur in connection with the subject refinancing.

Operation of the subject development is restricted by terms and conditions detailed in various loan documents, including but not limited to MMRB LURA, SAIL LURA, ELIHA, SAIL and SAIL ELI Loan Agreements. The MMRB and SAIL LURA(s) require that 17% of the units (47 units) be set aside for tenants earning 50% or less of Area Median Income ("AMI") and 68% of the units (188 units) be set aside for tenants earning 60% or less of AMI for a period of 50 years. The set-aside for the HC is 97.8% of the units (270) for tenants earning 60% or less of AMI for a period of 50 years. The SAIL ELI Loan requires 5% of the units (14 units) be set aside for tenants earning 35% or less of the AMI. The ELI set-asides have a term of 15 years, after which the ELI units will revert back to set-asides of 60% or less of AMI. Set-asides for Special Needs Households total 7 of the 14 total ELI units, which does not exceed the maximum allowed 10% of the development's total units.

The Cornerstone Group was not reported on Florida Housing's August 22, 2014, Past Due Report or its August 22, 2014, Asset Management Noncompliance Report.

As of July 31, 2014, Clipper Bay reported occupancy at a rate of 98.9%. Seltzer's Annual Compliance Review and Physical Inspection dated May 13, 2014, reflected no discrepancies or conditions requiring a written response.

Refinancing Overview

The refinancing of the existing first mortgage loan is permitted by underlying SAIL and SAIL ELI Loan documents. FHFC Board approval is required, however. Rule 67-48.0105(5) 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."

SMG has received and reviewed a HUD Firm Commitment in response to an application from First Housing for first mortgage insurance through HUD's 223(f) program. In summary, Borrower applied to First Housing, a HUD approved Multifamily Accelerated Processing Lender, for first mortgage financing in the amount of \$11,650,000. Anticipated loan terms include monthly principal and interest payments based upon a fixed interest rate and a 35-year amortization period. The interest rate has been locked at 4.12% (inclusive of servicing fees). The term of the loan will be 35 years.

HUD conditions will require that FHFC execute a Subordination Agreement of the SAIL and SAIL ELI Loans, to extend the existing SAIL and SAIL ELI Loan terms to be co-terminus with the new first mortgage loan and to renegotiate the SAIL documents to reflect annual SAIL interest payments are based upon 75% of ACF. Any payments of deferred developer fee will be subordinate to the annual SAIL interest payment, if applicable. HUD will also require certain subordinate loan document amendments to conform to HUD standards. The MMRB LURA, SAIL LURA and ELIHA must also be subordinated, as applicable, to certain HUD documents.

First Housing has determined the annual debt service following refinance of the first mortgage loan will be \$643,684 based upon an interest rate lock of 3.67% and a Mortgage Insurance Premium ("MIP") at 0.45%. The new annual debt service will be \$176,613 less than the current annual debt service of \$820,297. Cash flow will be improved, the subject's economic viability will be maintained, and Florida Housing's risk associated with the GP will be eliminated.

The SAIL and SAIL ELI Loans are currently in a subordinate lien position behind a MMRB first mortgage loan in the original amount of \$12,680,000. The new HUD first mortgage loan through First Housing will be in the amount of \$11,650,000. Florida Housing's lien position will not be adversely affected.

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Sources and Use of Funds

New HUD First Mortgage Loan	\$ 11,650,000
SAIL ELI	\$ 1,050,000
Borrower Contribution/Existing Reserves	\$ 471,369
Total Sources	<u>\$ 13,171,369</u>
Refinancing Fees and Closing Costs	\$ 504,927
HUD Required Repairs plus 20%	\$ 187,604
Replacement Reserve Deposit	\$ 331,445
MMRB First Mortgage Loan Payoff	\$ 11,565,000
Projected MMRB First Mortgage Loan Interest	\$ 111,024
SAIL Pay Down per Exhibit A	\$ 0
Accrued SAIL Interest (through 11/15/2014)	\$ 471,369
Total Uses	<u>\$ 13,171,369</u>

Existing Reserves and Refinancing Fees/Closing Costs are estimates provided by Borrower, which figures appear reasonable at this time. See Exhibit A for Seltzer's calculation of the SAIL pay down.

Summary and Recommendation

SMG concludes that conditions for refinancing approval, as set forth in RFP 2011-05 and Rule 67-48.010(15) F.A.C. have been met, subject to the conditions below. Further, proceeds of the refinancing and unfunded SAIL ELI Loan, along with the transfer of certain existing reserves held by the Bond Trustee will be utilized to satisfy the existing MMRB first mortgage loan guaranteed by the GP, pay off accrued SAIL interest and principal (if required) and pay related financing costs.

SMG therefore recommends that FHFC approve the refinancing of the existing MMRB first mortgage loan, subordination of the existing SAIL and SAIL ELI Loan documents, MMRB LURA, SAIL LURA and ELIHA (as applicable) to the new first mortgage loan, the extension of the SAIL and SAIL ELI Loan terms to be co-terminus with the new first mortgage loan, all which meet the requirements of the new first mortgage lender, extension of the SAIL LURA and modification of any other loan documents required to effectuate the refinancing, subject to the following:

1. 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
2. Extension of the SAIL LURA affordability period by a length of time equal to the extension of the SAIL loan term
3. Consent of the HC Equity provider, as applicable
4. Satisfactory resolution of any outstanding past due and non-compliance items
5. Payment of outstanding SAIL accrued interest, as determined by Servicer and approved by FHFC
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. Confirmation of final loan terms and improved cash flow determination
8. Review and approval of all loan documents consistent with the terms outlined above by Florida Housing and its legal counsel

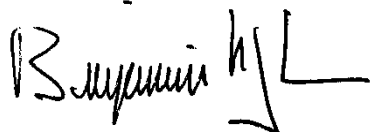
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9. Receipt of a non-refundable renegotiation fee equal to one-half of one percent of the SAIL principal amount on the date of the SAIL closing
10. Prepayment of any required compliance monitoring fees
11. Confirmation of refinancing fees and closing costs prior to closing in order to verify the SAIL pay down
12. Any payment of deferred developer fee will be subordinate to the annual SAIL interest payment, if applicable
13. Repayment of the required proportionate amount of the SAIL, if any, and
14. All other due diligence required by FHFC and its legal counsel.

Please call me at (850) 233-3616, Ext. 223, if I can be of further assistance.

Sincerely,

SELTZER MANAGEMENT GROUP, INC.

A handwritten signature in black ink, appearing to read "Benjamin S. Johnson", with a stylized flourish at the end.

Benjamin S. Johnson
President

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Exhibit A

Clipper Bay
SAIL Pay Down Calculation

Original Balance First Mortgage Loan	\$ 12,680,000
Original Balance SAIL Loan	\$ <u>2,000,000</u>
Total	\$ 14,680,000

Original SAIL divided by the total original MMRB first mortgage and SAIL loans is 13.6%.

New HUD First Mortgage Loan	\$ 11,650,000
Current Mortgage Loan Amount	\$ <u>11,565,000</u>
Increase to First Mortgage Loan	\$ 85,000
Multiplied by percentage above	13.6%
SAIL Pay Down Required	\$ 11,560

Note: above calculation is before deducting eligible financing costs