



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 II (f/k/a Westlake II Apartments and Venetian Isles II)  
1<sup>st</sup> Mortgage Refinancing/Transfer of General Partner Ownership Interest/Subordination  
of SAIL Loan/Subordination of SAIL LURA and HC ELIHA/Renegotiation of SAIL  
Loan Terms

SAIL 2002-007S/GUAR-89 HUD Risk 066-98019/HC 2003-519C/SMI-16

Dear Mr. Fowler:

First Housing reviewed correspondence dated September 11, 2014 from Kenneth J. Cutillo, President of the BFIM Westlake II GP, Inc. (“General Partner”) of Trust Lake Park Two, 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 II and simultaneously pay off the Housing Finance Authority of Palm Beach County (“HFAPBC”) issued bond financed first mortgage loan which is credit enhanced by the Florida Housing Finance Corporation (“FHFC” or “Florida Housing”) 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. It was requested that FHFC agree to allow the Borrower to enter into standard Freddie Mac form of Subordination and Intercreditor Agreements on the existing State Apartment Incentive Loan (“SAIL”), SAIL Land Use Restriction Agreement (“LURA”) and Housing Credit (“HC”) Extended Low Income Housing Agreement (“ELIHA”).
4. 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.
- Borrower Audited Financial Statements for Year Ended December 31, 2013
- Oak Grove Capital/Freddie Mac Mortgage Application
- General Partner correspondence dated December 8, 2010
- SAIL Loan Credit Underwriting Report dated January 8, 2002
- SAIL Promissory Note dated March 28, 2003
- 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 II is a 112 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 II. The current General Partner with 0.1% ownership interest is BFIM Westlake II GP, Inc. The limited partner with 99.9% ownership interest is MMA Westlake Two LLC.

The development originally received a first mortgage Multifamily Mortgage Revenue Bonds (“MMRB”) financed loan issued by the HFA of Palm Beach County. The loan was funded with the issuance of Tax Exempt Housing Revenue Bonds in the original amount of \$8,250,000. The loan bears interest at a rate of 6.32% and matures on December 15, 2043. 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 approximately \$7,352,000.

The second mortgage note, which closed on March 31, 2003, is held by FHFC under the SAIL program, in the original amount of \$905,350. The loan bears an annual interest rate of 3%, is non-amortizing and matures on December 15, 2043. Interest only is payable annually out of available cash flow. Annual payments are required based upon all applicable fees. All outstanding unpaid interest and principal is due at maturity. The loan is collateralized by the Partnership's real and personal property. As of December 31, 2013, the loan balance was \$905,350 and as of September 30, 2014, the accrued interest was \$302,000.14. Freddie Mac will require that payment of SAIL loan interest is limited to 75% of available surplus cash as part of the refinancing.

The third mortgage note, a State Housing Initiative Partnership Program Loan (“SHIP”), dated June 30, 2003, is held by the HFA of Palm Beach County in the original amount of \$232,663. The loan bears interest at a rate of 3%. The loan is repayable to the extent of available cash flow as set forth in the SHIP loan agreement. The loan matures on December 31, 2034. The loan is collateralized by the Partnership's real and personal property. As of December 31, 2013, the loan balance was \$232,663.

The fourth mortgage note, a SMI loan, dated October 8, 2009, is held by FHFC, was advanced in eight quarterly payments of \$48,065. The loan bears interest at 5% and matures on October 15, 2019. Interest shall accrue from inception of the loan. Beginning on September 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, 2033. The loan is collateralized by the Partnership's real and personal property. As of August 31, 2014, the loan balance was approximately \$369,077.

The development also received an allocation of HC.

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

The SAIL LURA requires that 100% of the units be set aside for tenants earning 60% or less of the Area Medium Income ("AMI") for a period of 50 years. The set-aside for the HC ELIHA 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 98.21% occupied. First Housing's Annual Management Review and Physical Inspection performed July 17, 2014, reported occupancy of 99% and the property was found to be in non-compliance for one minor item which was corrected the same day as the inspection. The Borrower's response was received and a closeout letter is pending.

#### Refinancing Overview

The refinancing of the existing first mortgage loan is permitted under the underlying SAIL loan documents. However, FHFC Board approval is required. Rule 67-48.010(15) 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."

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 \$7,300,000. 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 6.32% existing financing rate.

Freddie Mac conditions will require that FHFC execute a Subordination Agreement of the SAIL loan and renegotiation of SAIL loan documents to reflect that annual SAIL interest payments are based on 75% of available cash flow. For consideration of the renegotiation of the loan

documents to reflect that the SAIL interest payment is based upon 75% of available cash, FHFC will require the payment of all outstanding accrued interest at or prior to closing and any payments of deferred developer fee will be subordinate to the annual SAIL payment, if applicable. Freddie Mac will also require certain subordinate loan document amendments to conform to Freddie Mac standards. The SAIL LURA and HC 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 \$428,379 which is \$197,957 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 FHFC Guarantee Fund Program will be eliminated. The SAIL Loan is currently in a subordinate lien position behind a \$8,250,000 original principal balance first mortgage loan. The refinanced first mortgage loan is anticipated to be in the amount of \$7,300,000. Florida Housing's security position will not be adversely affected. The amount of the new first mortgage, trustee-held funds along with additional equity from the Borrower, will payoff the existing first mortgage loan balance and the SMI loan principal and interest and closing costs.

The combined loan to value of the first mortgage and SAIL loan at the time of the original SAIL underwriting was 99.62% based on the restricted rents and favorable financing value. Based upon an appraisal dated September 12, 2014 performed by Novogradac & Company LLP, the subject's leased fee value assuming current Section 42 encumbrances and achievable LIHTC rents "As Is" is \$9,300,000. The combined loan to value of the proposed first mortgage and SAIL loan is 88.23% based on the restricted value, which satisfies the requirement of the Rule that the original combined loan to value ratio for the superior mortgages and SAIL mortgage is maintained or improved.

Overall Source and Use of Funds

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

Refinancing Analysis San Marco Villas II			
<b>Sources</b>			
First Mortgage			7,300,000
BNY Bond Fund			366,000
<b>Total Sources</b>			<b>7,666,000</b>
<b>Uses</b>			
Outstanding Partnership Debt			7,352,000
SMI Loan Payoff			369,077
Prepayment Penalty / Yield Maintenance Penalty			0
Due Diligence Costs			17,500
Legal - Lender			17,500
Application Fee - Freddie Mac	0.10%		7,300
Origination Fee - Lender	1.00%		73,000
Legal - Borrower/Partnership			50,000
Legal Fees (Bond Counsel, Issuer Counsel, Trustee Counsel)			45,000
Capital Repair Escrow (Radon mitigation; immediate repairs)			55,000
Title and Recording	0.35%		25,550
<b>Total Uses</b>			<b>8,011,927</b>
<b>Net Distributable Proceeds/Borrower Cash Out</b>			<b>(345,927)</b>

These costs are based on estimates provided by the Borrower which appear reasonable at this time. The Borrower is expected to contribute approximately \$345,927 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 LIHTC 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 67-48.010(15) 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 loan, 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.
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 subordination of the existing SAIL loan in the original principal amount of \$905,350 to the new first mortgage. Freddie Mac will also require certain subordinate loan document amendments to conform to Freddie Mac standards. Freddie Mac will require that payment of SAIL loan interest is limited to 75% of available surplus cash as part of the refinancing. FHFC will require the payment of all outstanding accrued interest on the SAIL loan, if applicable and pay down the SAIL loan, if applicable. The SAIL 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 FHFC and its legal counsel
2. 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
3. Repayment of the required proportionate amount of the SAIL, if any
4. Consent of the HC equity provider
5. 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.
6. Satisfactory resolution of any outstanding past due and noncompliance items
7. Payment of outstanding SAIL accrued interest, as determined by Servicer and approved by FHFC
8. 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)
9. Prepayment of any required compliance monitoring fees
10. Confirmation of refinancing fees and closing costs prior to closing in order to verify the SAIL pay down
11. Receipt of a non-refundable renegotiation fee of one half of one percent (0.5%) of the outstanding principal balance of the SAIL loan, or extension fee as necessary
12. Any payment of deferred developer fee will be subordinate to the annual SAIL interest payment, if applicable
13. Receipt of a non-refundable transfer and assumption fee equal to one-tenth of one percent of the SAIL loan and,
14. All other due diligence required by FHFC and its legal counsel.



Prepared by:



Scott M. Eberhard  
Senior Credit Underwriter  
First Housing Development Corporation

Pay-Down Calculation

Original Superior Lien	
First Mortgage	\$8,250,000
plus SAIL Loan	<u>\$905,350</u>
Total	\$9,155,350
Original SAIL loan divided by total original superior lien & SAIL loan = .0989	
New first mortgage amount	\$7,300,000
Original first mortgage	\$8,250,000
Increased / (Decreased) loan amount before eligible refinancing costs	(\$950,000)
Net increase/decrease multiplied by .0989	\$0 No paydown of SAIL is anticipated at this time

San Marco Villas II Comparative Pro Forma

	Developer 2014 Budget	2013 FHDC Analysis (Exhibit)	Underwriter	per unit
<b>Revenue</b>				
Gross Potential Rental Revenue	1,256,160	1,176,112	1,268,520	
Vacancy Loss	(75,370)	(82,979)	(82,979)	6.54%
Collection Loss	Included	0	0	0.00%
Rent Concessions	(10,208)	0	0	0.00%
Effective Gross Revenue (EGR)	1,170,582	1,093,133	1,185,541	
Laundry and Vending	22,148	0	0	
Tenant Charges	31,742	0	0	
Cable	0	0	0	
Interest	0	14,988	0	
Misc. Income	5,210	48,392	48,392	
<b>Total Effective Gross Revenue</b>	<b>1,229,682</b>	<b>1,156,513</b>	<b>1,233,933</b>	
<b>Expenses</b>				
Taxes	120,000	114,431	114,431	1,022
Insurance	92,793	89,771	89,771	802
Management Fees	49,187	45,152	45,152	3.66% 403
Administrative	46,500	97,502	97,502	871
Payroll	123,200	78,465	78,465	701
Utilities	86,866	110,139	110,139	983
Operating & Maintenance	100,800	163,587	131,012	1,170
Replacement Reserve	33,600	22,400	33,600	300
<b>Total Expenses</b>	<b>652,946</b>	<b>721,447</b>	<b>700,072</b>	6,251
<b>Net Operating Income</b>	<b>576,736</b>	<b>435,066</b>	<b>533,861</b>	
First Mortgage	427,357	529,958	428,379	
Second Mortgage SAIL	0	27,161	0	
SHIP	0	0	0	
SMI	0	10,151	0	
Fees	0	96,378	0	
<b>Total Debt Service Payments</b>	<b>\$427,357</b>	<b>\$663,648</b>	<b>\$428,379</b>	
<b>Cash Flow Before Tax</b>	<b>149,379</b>	<b>(228,582)</b>	<b>105,482</b>	
<b>DSC</b>				
1st Mortgage & Fees	1.35	0.69	1.25	
All Mortgages	1.35	0.66	1.25	

# SAN MARCO VILLAS II Borrower Organizational Chart

**Trust Lake Park Two, LTD.,  
a Florida limited partnership  
EIN 65-1144048**

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

**Investor Limited Partner 99.9%  
MMA Westlake Two, 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%**