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To: Tim Kennedy, Special Assets Administrator
Florida Housing Finance Corporation

From: William J. Metler, Senior Credit Underwriter
First Housing Development Corporation

Date: October 15, 2014

Subject: Citrus Glen II Apartments – State Apartment Incentive Loan ("SAIL")
SAIL 97S-005/96L-027

Restructure and Extension of the SAIL Loan and SAIL LURA

At the request of Florida Housing Finance Corporation ("FHFC"), First Housing has reviewed a request dated May 13, 2014 from Leland Enterprises, Ltd. and written on behalf of Affordable/Citrus Glen II, Ltd. ("Borrower") regarding Citrus Glen II. The Borrower is requesting that FHFC approve the reduction of the development's current SAIL Loan interest rate from 9% to 3%. The request further indicates that they would like FHFC's approval to restructure the 3% interest to a 1% hard pay amortization with a term recommended by the Credit Underwriter that allows for a 1.10 to 1.0 debt service coverage based upon current income and expenses. The Borrower has agreed to an extension of the SAIL LURA term equal to the length of the extended SAIL Loan term.

The subject second mortgage SAIL loan in the original amount of $684,400 issued by FHFC closed on January 31, 1997 with all accrued and unpaid interest and principal due and payable based upon a Second Amended and Restated Promissory Note with a maturity date of July 1, 2014. As of September 30, 2014 accrued interest payable based on the 3% accrual rate is $56,421.

On behalf of FHFC, First Housing has reviewed the request, performed certain due diligence, and formulated a recommendation. First Housing's findings are as follows:

Background

Citrus Glen II Apartments is an existing 96-unit multifamily development located at 5201 Limelight Circle, Orlando, Florida 32839 and consists of twelve (12) residential apartment buildings. The Development contains forty-eight (48) two bed/two bath units and forty-eight three bed/two bath units.

The Borrower had a first mortgage in the original amount of $2,050,592. Over time the balance had been reduced to $1,538,074. On July 1, 2014 the First Mortgage was paid off through an affiliate of the Owner with a new unsecured mortgage of $1,500,000 and an interest only payment based on a 6.0% interest rate. This new unsecured mortgage calls for a maturity date of July 1, 2019.

The Development is further restricted by terms and conditions detailed in various loan documents, including but not limited to the SAIL Land Use Restriction Agreement ("LURA") and Housing Credit ("HC") Extended Low-Income Housing Agreement ("ELIHA"). The HC ELIHA requires 15% of the units (15 units) to be set-aside at or below 35% of the Area Median Income ("AMI") and 85% of the units (remaining units) to be set-aside at or below 60% of the AMI. The SAIL LURA requires 100% of the units to be set-aside at or below 60% of the AMI. The SAIL and HC set-aside term is for 50 years.

According to the FHFC August 22, 2014 Asset Management Noncompliance Report, the development team has no noncompliance items outstanding.

According to the FHFC August 22, 2014, Past Due Report, the development team has the following past due items outstanding:

1. Citrus Glen SAIL Loan matured 6/28/2010 and currently has past due servicing fees, compliance fees and late fees totaling $24,102.

2. Citrus Glen II SAIL Loan matured July 1, 2014. Its total principal is due as well as accrued interest. Payoff as of September 30, 2014 will be $769,363.

3. Timber Sound SAIL Loan matured December 12, 2012 and currently has past due Taxes, Insurance and Replacement Reserve escrows of $71,925.

First Housing conducted an Annual Management Review and Physical Site Inspection of the development on September 10, 2013 and the development was found to be 97% occupied, in compliance and the review was closed out.

A rent roll dated as of August 22, 2014 indicates the property was 97.9% occupied at that time. The FHFC Occupancy Report indicates the property was 94.79% occupied as of July 2014. The Developer has stated that in recent history Citrus Glen II maintained an average occupancy in the 92% range but that the improving economy has allowed for gradual increases to the 97% level currently.

Modification Overview

The Borrower has requested that the SAIL Loan interest rate be modified from a 9% interest rate to a 3% interest rate in accordance with Senate Bill 1996 passed by the legislature in 2012 and as stated in Rule 67-48.010(26). In addition the Borrower has requested approval of further modification from the requested 3% non-amortizing loan with payments based on cash flow to a fixed rate "hard-pay" amortizing loan at 1.0% where both principal and interest will be due and payable monthly. Per SAIL Rule, renegotiation of the SAIL is allowed to extend or retain the availability of housing for the target population. The SAIL has matured and the Borrower has advised that funds are not available to repay the note. The SAIL is currently in second lien position and will remain in second lien position. So, the security interest is not jeopardized.

First Housing has received and reviewed the last three fiscal year-end audited financial statements for the Development which are re-capped below:

Citrus Glen II
Operating Proforma

Description	2011 Audited	2012 Audited	2013 Audited	Borrower's Anticipated 10/1/2014 12-month Budget	Per Unit
Revenue					
Gross Potential Revenue	$743,171	$744,391	$766,777	$902,400	$9,400
Other Income	$0	$0	$0	$0	$0
Washer/Dryer	$0	$0	$0	$0	$0
Cable	$0	$0	$0	$0	$0
Miscellaneous	$18	$27	$12	$13,440	$140
Gross Potential Revenue	$743,189	$744,418	$766,789	$915,840	$9,540
Vacancy and Collection Loss @ 7%				(64,109)	(668)
Total Effective Gross Revenue	**$743,189**	**$744,418**	**$766,789**	**$851,731**	$8,872
Expenses					
Fixed					
Real Estate Taxes	$44,875	$50,118	$51,653	$51,648	$538
Insurance	$27,352	$27,443	$24,530	$34,464	$359
Variable					
Management Fee	$45,176	$44,956	$46,867	$42,587	$444
General and Adminstrative	$57,261	$58,043	$65,615	$50,784	$529
Payroll Expenses	$79,764	$85,396	$89,152	$86,400	$900
Utilities	$60,559	$61,471	$56,637	$57,600	$600
Marketing and Advertising	$0	$0	$113	$19,200	$200
Maintenance and Repairs	$66,796	$52,381	$60,494	$62,400	$650
Grounds Maintenance and Landscaping	$0	$0	$0	$9,600	$100
Security	$0	$0	$0	$12,864	$134
Reserve for Replacements	$19,200	$19,200	$19,200	$28,800	$0
Total Expenses	**$400,983**	**$399,008**	**$414,261**	**$456,347**	$4,454
Net Operating Income	**$342,206**	**$345,410**	**$352,528**	**$395,385**	$4,419
Debt Service Payments					
First Mortgage Loan	$188,340	$188,340	$188,340	$90,000	$938
FHFC SAIL Loan	$20,589	$0	$0	$82,837	$863
Input				$0	$0
Input				$0	$0
Input				$0	$0
Total Debt Service Payments	**$208,929**	**$188,340**	**$188,340**	**$262,837**	$2,738
Cash Flow After Debt Service	**$133,277**	**$157,070**	**$164,188**	**$132,548**	$1,681

Debt Service Coverage Ratios				
DSC - 1st Mtg Florida Community Bank	1.82	1.83	1.87	2.29
Debt Service Coverage - All Mtgs plus Fees	1.64	1.83	1.87	1.50
Financial Ratios				
Operating Expense Ratio	54%	54%	54%	54%
Break-Even Occupancy Rate	82%	79%	79%	79%

Notes:

1. The 2011 through 2013 audited financial statements included Supervisory Management fees and Asset fees in addition to the contractual Management Company

Fees. These amounts were $89,089, $103,218 and $123,291 for years 2011, 2012, and 2013 respectively. The Credit Underwriter has adjusted the management fee line item to reflect the actual management company fee expense.

2. Based upon anticipated Net Operating Income the Credit Underwriter has recommended a nine (9) year term for the fully amortized SAIL Loan. The resultant debt service maintains no more than a 1.50 to 1.00 debt service ration for the first mortgage and SAIL Loan combined.

Recommendation

Based on the analysis of historical data for this Development and the anticipated current gross potential rental income, current expenses, and required debt service for both first and second mortgages, the Credit Underwriter recommends that FHFC approve the request to renegotiate the existing SAIL loan to a 1.0% fixed rate with a 9 year straight amortization. In addition the SAIL LURA will be extended. The recommendation is subject to the following:

1. Review and approval of all loan documents consistent with the terms outlined above by FHFC and its legal counsel.

2. Payment in full of all outstanding SAIL Loan accrued interest currently anticipated to be $56,421.

3. Payment of all unpaid Servicing fees, Compliance fees, and late fees outstanding for Citrus Glen, Citrus Glen II, and Timber Sound.

4. Satisfactory resolution of any outstanding past due and/or noncompliance items.

5. 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.

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. All other due diligence required by FHFC and its legal counsel.

8. Extension of the SAIL LURA affordability period for an additional nine (9) years.

Prepared by:

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