SELTZER MANAGEMENT GROUP, INC.

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October 15, 2014

VIA EMAIL

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

RE: Timber Sound Apartments
97S-026 SAIL / 96L-026 HC
Restructure and Extension of the SAIL and SAIL LURA

Dear Mr. Fowler:

Seltzer Management Group, Inc. ("SMG" or "Seltzer") is in receipt of correspondence from Timber Sound, Inc. ("TSInc"), general partner of Timber Sound, Ltd. ("TSLtd" or "Borrower") requesting that Florida Housing Finance Corporation ("FHFC" or "Florida Housing") approve the restructuring of the existing State Apartment Incentive Loan ("SAIL") and extend the term of the SAIL and the SAIL LURA for the above referenced development.

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

- Borrower e-mail dated May 13, 2014 requesting Florida Housing to restructure and extend the outstanding SAIL
- SAIL Credit Underwriting Report dated December 10, 1996
- SAIL original Promissory Note in the amount of $570,000 dated January 31, 1997.
- Certificate of Limited Partnership and Affidavit of Capital Contributions for Timber Sound, Ltd. dated March 18, 1996.
- SAIL Land Use Restriction Agreement ("LURA") dated January 31, 1997
- Extended Low-Income Housing Agreement ("ELIHA") dated September 8, 1997 and First Amendment to ELIHA dated April 2, 1999.
- Borrower Audited Financial Statements for the years ended December 31, 2013 and 2012
- Rule 67-48.0105(4) through (6) F.A.C.Rule 67-48.010 (26)
- 2014 Annual Management Review and Physical Inspection report
- FHFC Past Due Report, dated September 30, 2014
- FHFC Noncompliance Report, dated August 22, 2014

In addition, SMG has had various conversations and electronic communications with FHFC staff regarding the proposed restructuring and extension. Our findings are as follows:

Background

Timber Sound Apartments is a family development located at 4927 Raleigh Street, Orlando, Orange County, Florida. The Subject Development is comprised of ten (10) two-story garden-style residential buildings containing 80 units located on 7.67 acres of land. The development offers forty (40) two-bedroom, two-bathroom units and forty (40) three-bedroom, two-bathroom units. The subject development was originally financed with a first mortgage loan from Edison Mortgage Company ("Edison") in the amount of $1,310,000 for a period of fifteen (15) years at a fixed rate of 8.45%; a second mortgage SAIL from FHFC in the amount of $570,000; 9% Housing Credits ("HC") from FHFC and deferred developer fee.Terms of the SAIL include a maturity date of the earlier of fifteen (15) years after completion of construction, or the date of maturity of the First Mortgage and subsequently determined to be December 12, 2012 and a base interest rate of 3% which is payable annually based on available cash flow. There is an additional interest rate component of 6%, also payable from available cash flow and only after payment of a cumulative 12% annual return on capital. Annual payment of all applicable fees is required. There is no principal amortization. All accrued interest and principal is due at maturity.

SAIL set-asides are 100% of the units at 60% or less of Area Median Income ("AMI") for 50 years. The HC set asides are 15% (12 units) at 35% or less of AMI and 85% of the units (the remaining units) at 60% or less of AMI for a period of 50 years.

TSLtd is a Florida Limited Partnership registered with the State of Florida in March 1996. The general partner, TSInc is a Florida Profit Corporation registered with the State of Florida in March 1996. TSInc has a 1% ownership interest in the Partnership. Kenneth G. Dixon is President of TSInc. The original investor limited partner, Edison Capital Housing Florida ("ECHF"), a California corporation with a 98.99% ownership interest in the Partnership is an affiliate of the first mortgagee. On January 2, 2011, the Partnership Agreement was amended to assign the limited partner interest from ECHF to Crescent Sound, Ltd. ("Crescent"). The special limited partner with a 0.01% ownership interest is Mission Funding Theta ("MFT"). Applicant did not provide the January 2, 2011 Amended and Restated Agreement of Limited Partnership. Seltzer's recommendation is contingent upon receipt and satisfactory review of the January 2, 2011 Amended and Restated Agreement of Limited Partnership along with any and all subsequent amendments.

Audited financials for the Borrower prepared by Moss, Krusick & Associates, LLC dated February 15, 2014 for the years ended December 31, 2013 and 2012 were provided to Seltzer. The auditor advised that the Partnership is currently in default on the SAIL and there is insufficient cash to pay the obligation. While negotiations are presently under way to obtain revised loan agreements to permit the realization of assets and the liquidation of liabilities in the ordinary course of business, the Partnership cannot predict what the outcome of the negotiations will be. The auditor considered that these conditions raise substantial doubt about the development's ability to continue as a going concern.

Per the December 31, 2013 audit report, the Edison first mortgage loan has a principal balance in the amount of $1,009,753. Payments of principal and interest in the amount of $10,026 are due monthly with a fixed interest rate of 8.45% and a final payment of any remaining principal and interest due on December 31, 2014. Seltzer notes that the Borrower has indicated that arrangements to refinance the first mortgage at the time of the upcoming maturity of the first mortgage will be made once the SAIL restructuring and extension have been completed.

The principals and/or related party entities of the Borrower are reported on Florida Housing's September 30, 2014, Past Due Report as follows:

- Citrus Glen: SAIL – The Loan matured June 28, 2010. Demand letters have been sent monthly with the last one sent September 30, 2014. Borrower owes $5,175 plus a 5% late charge of $258.75 for the 2011 SAIL Servicer fees due April 30, 2012. Borrower owes $5,175 plus a 5% late charge of $258.75 for the 2012 SAIL Servicer fees due April 30, 2013. Borrower owes $5,175 plus a 5% late charge of $258.75 for the 2013 SAIL Servicer fees due April 30, 2014. Past due and reminder notices have been sent monthly; the last notice was sent September 24, 2014. HC – Borrower owes FHFC HC compliance monitoring fees in the amount of $7,800 including $6,500 due for prior years. Borrower was last contacted on January 9, 2014.
- Citrus Glen II: SAIL – The Loan matured July 1, 2014. The development is in credit underwriting for SAIL restructuring and extension.
- Timber Sound: SAIL – The Loan matured December 12, 2012. Demand letters have been sent monthly with the last notice sent on September 30, 2014. The development is in credit underwriting for a SAIL restructuring and extension. Taxes and insurance and replacement reserve escrows are past due for September 10, 2013 through September 10, 2014. Several requests for updates have been made but no response has been received. On May 8, 2014 a request for an update regarding the past due items was sent to the Borrower. On September 29, 2014 a request was sent for a status update of the past due items.

The August 22, 2014, Asset Management Noncompliance Report does not include any of the Borrower's principals and/or related entities.

As of June 30, 2014, occupancy was reported at 97.50%. Seltzer's Annual Compliance Review and Physical Inspection dated February 14, 2014, was deemed satisfactory requiring no written response.

Proposed Restructure and Extension

The Borrower has requested that the SAIL 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). The Corporation shall not proceed with the request until the Applicant or Developer has satisfied any financial obligations for which the Applicant or Developer, or Principal, Affiliate or Financial Beneficiary of the Applicant or Developer is in arrears to the Corporation or any agent or assignee of the Corporation. The Borrower has committed to satisfy all financial obligations in arrears to the Corporation or any agent or assignee of the Corporation.

The Borrower has also requested that the terms of the SAIL be further amended to reduce the interest rate from 3% to a 1% hard pay with a fully amortizing note. 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 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.

A plan for the repayment of the SAIL is as follows: At closing, the Borrower will pay all outstanding accrued 3% base interest on the SAIL, currently estimated at $46,989.85. All accrued additional interest at the 6% interest rate, currently estimated at $569,593.98, will be forgiven in accordance with Florida Statute. The SAIL will then be converted to a fully amortizing loan with a term of 14 years with annual payments of principal and interest at an interest rate of 1% plus applicable Servicer fees. Payment will be guaranteed by Borrower, General Partner, and Kenneth G. Dixon. The Borrower will also be required to pay any tax and insurance escrow due through the date of closing and currently estimated in the amount of $55,925.28 plus any replacement reserve account deposits due through the date of closing and currently estimated to be in the amount of $16,000.08. The Borrower has agreed to an extension of the SAIL LURA term for an additional fourteen (14) years.

Summary and Recommendation

SMG concludes that conditions for the restructuring approval, as set forth in Rule 67-48.0105 (4) through (6) F.A.C. have been met, subject to the conditions below.

SMG therefore recommends that FHFC approve the restructuring and extension of the existing SAIL and SAIL LURA and modification of any loan documents required to effectuate the restructuring and extension of the SAIL, subject to the following:

1. Receipt and satisfactory review by the Servicer, prior to closing, of the January 2, 2011 Amended and Restated Agreement of Limited Partnership along with any and all subsequent amendments.
2. Receipt and satisfactory review of the consent of the Limited Partner to the restructuring and extension
3. Satisfactory resolution of any outstanding past due and noncompliance items.
4. 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).
5. Review and approval of all loan documents consistent with the terms outlined above by Florida Housing's legal counsel.
6. Payment of outstanding SAIL accrued interest, insurance and tax escrow deposits and replacement reserve deposits as determined by Servicer and approved by FHFC.
7. 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.
8. Extension of the SAIL LURA term affordability period for an additional fourteen (14) years.
9. All other due diligence required by FHFC and its legal counsel.

Please call me at (850) 233-3616, Ext. 238, if I can be of further assistance.

Sincerely,

SELTZER MANAGEMENT GROUP, INC.

Wanda Greggo

Wanda C. Greggo
Credit Underwriter