FIRST HOUSING
SERVICE • FINANCE • COMPLIANCE

November 25, 2014

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

Re: Venice Cove Apartments (f/k/a Venice Homes)
1st 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 2001-073S/GUAR-68/HC 2001-519C/SMI-17

Dear Mr. Fowler:

First Housing reviewed correspondence dated October 27, 2014 from Kenneth J. Cutillo, President of the BFIM Venice Cove Homes GP, Inc. ("General Partner") of Venice Cove, 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 Venice Cove Apartments and simultaneously pay off the Housing Finance Authority of Broward County ("HFABC") 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 DPSF Venice Cove LLC, an affiliate of Southport Financial Services, Inc. and its principal, J. David Page. (See Exhibits A & B) Specifically, First Housing has been requested to determine if DPSF Venice Cove 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.

First Housing also reviewed an email dated November 17, 2014 from Eric Bonney, First Vice President of Boston Financial requesting a renegotiation of the SAIL loan interest rate from 9% to 3% as permitted by Rule 67-48.010(25).

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 October 27, 2014 and November 17, 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
- SAIL Loan Credit Underwriting Report dated April 11, 2002
- SAIL Promissory Note dated June 20, 2002
- Borrower’s Sources and Uses of Funds Schedule
- FHFC Past Due Report dated September 30, 2014
- FHFC Noncompliance Report dated September 30, 2014
- FHFC Occupancy Report dated August 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:

<u>Background</u>

Venice Cove Apartments is a 150 unit multifamily development located in Fort Lauderdale, Broward County, Florida. The Borrower is a Florida limited partnership formed to own and operate Venice Cove Apartments. The current General Partner with 0.1% ownership interest is BFIM Venice Cove Homes GP, Inc. The limited partner with 99.9% ownership interest is MMA Venice Homes LLC.

The development originally received a first mortgage Multifamily Mortgage Revenue Bonds ("MMRB") financed loan issued by the HFA of Broward County. The loan was funded with the issuance of Tax Exempt Housing Revenue Bonds in the original amount of $9,000,000 and Taxable Housing Revenue Bonds in the original amount of $1,220,000. The loan bears interest at a rate of 7.00% and matures on July 1, 2041. 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 December 31, 2013, the loan balance was approximately $9,390,000.

The second mortgage note, which closed on June 20, 2002, is held by FHFC under the SAIL program, in the original amount of $1,548,000. The loan bears an annual interest rate of 9%, is non-amortizing and matures on March 31, 2042. 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 $1,128,000 and as of September 30, 2014, the accrued interest at the 3% base rate was $376,415.81. 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 SMI loan, dated April 29, 2011, is held by FHFC, was advanced in six quarterly payments of $64,266. The loan bears interest at 5% and matures on May 1, 2021. Interest shall accrue from inception of the loan. Beginning on May 1, 2015, 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 May 1, 2021. The loan is collateralized by the Partnership's real and personal property. As of December 31, 2013, the loan balance was approximately $385,596.

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 2.01% of the units (3 units) be set aside for tenants earning 25% or less of the Area Medium Income ("AMI") and 97.99% (remaining units) be set aside for tenants earning 60% or less of the AMI for a period of 50 years. Additionally, the Borrower has committed that 30% or more of the total units must have three or more bedrooms. 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 September 30, 2014 Past Due Report. The development team had no noncompliance issues however, the proposed general partner, Southport Financial Services, Inc., had the following issue reported on the September 30, 2014 Asset Management Noncompliance Report:

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

Per the August 2014 FHFC occupancy report, the development was 95.33% occupied. First Housing's Annual Management Review and Physical Inspection performed in March 2014, reported occupancy of 95% and the property was found to be in non-compliance for several minor items which were subsequently corrected. The Borrower's response was received and a closeout letter was issued in August 2014.

<u>Refinancing Overview</u>

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 $9,500,000. 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 178 basis points over the 7-Year U.S. Treasury Rate. As of November 12, 2014, the 7-Year U.S. Treasury Rate was 2.06% resulting in an "all in" rate of 3.84% which is a more favorable rate than the 7.00% 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 $533,791 which is $239,903 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 $10,220,000 original principal balance first mortgage loan. The refinanced first mortgage loan is anticipated to be in the amount of $9,500,000. 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 89.21% 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 $12,400,000. The combined loan to value of the proposed first mortgage and SAIL loan is 89.10% 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:

| | | |
|---|---|---|
| **Sources** | | |
| First Mortgage | | 9,500,000 |
| BNY Bond Fund | | 288,159 |
| November and December bond payments | | 128,532 |
| Debt Service Reserve | | 376,030 |
| **Total Sources** | | **10,292,721** |
| | | |
| **Uses** | | |
| Outstanding Partnership Debt - principal | | 9,275,000 |
| Outstanding Partnership Debt - interest | | 246,276 |
| Bond Fees - per BNY Mellon 10/28 letter | | 19,627 |
| SMI Loan | | 385,000 |
| SAIL Loan Accrued Interest Payable | | 384,945 |
| Due Diligence Costs | | 17,500 |
| Legal - Lender | | 17,500 |
| Application Fee - Freddie Mac | 0.10% | 9,500 |
| Origination Fee - Lender | 1.00% | 95,000 |
| Legal - Borrower/Partnership | | 50,000 |
| Title and Recording | 0.35% | 33,250 |
| Upfront deposit - immediate capital repairs | | 20,000 |
| Prepayment Penalty / Yield Maintenance Penalty | | 0 |
| Contingency | | 50,000 |
| **Total Uses** | | **10,603,598** |
| | | |
| **Net Distributable Proceeds/Borrower Cash Out** | | **(310,877)** |

These costs are based on estimates provided by the Borrower which appear reasonable at this time and a projected SAIL loan accrued interest balance through December 31, 2014. The Borrower is expected to contribute approximately $310,877 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 DPSF Venice Cove 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 renegotiation of the SAIL loan interest rate from 9% to 3%, subordination of the existing SAIL loan in the original principal amount of $1,548,000 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. Borrower, DPSF Venice Cove LLC and J. David Page to execute any assignment and assumption documents FHFC deems necessary to effectuate the transfer of the general partner interest.

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 and servicing fees, if applicable.

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

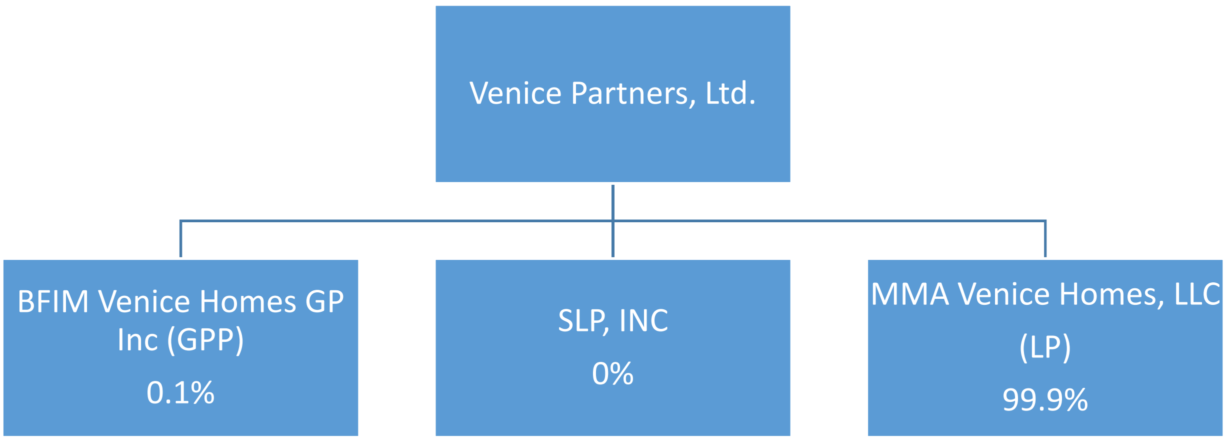
| | | |
|---|---|---|
| Original Superior Lien | | |
| First Mortgage | $10,220,000 | |
| plus SAIL Loan | $1,548,000 | |
| Total | $11,768,000 | |
| Original SAIL loan divided by total original superior lien & SAIL loan = .1315 | | |
| New first mortgage amount | $9,500,000 | |
| Original first mortgage | $10,220,000 | |
| Increased / (Decreased) loan amount before eligible refinancing costs | ($720,000) | |
| Net increase/decrease multiplied by .1315 | $0 | No paydown of SAIL is anticipated at this time |

Venice Cove Apartments Comparative Pro Forma

| | Developer 2014 Budget | 2013 FHDC Analysis (Exhibit) | Underwriter | | per unit |
|---|---|---|---|---|---|
| **Revenue** | | | | | |
| Gross Potential Rental Revenue | 1,838,676 | 1,822,341 | 1,826,436 | | |
| Vacancy Loss | (91,934) | (76,573) | (91,934) | 5.03% | |
| Collection Loss | (36,000) | (17,328) | (17,328) | 0.95% | |
| Rent Concessions | (12,000) | (11,496) | (12,000) | 0.66% | |
| Non-Revenue Units | (21,897) | (23,025) | (21,897) | 1.20% | |
| Effective Gross Revenue (EGR) | 1,676,845 | 1,693,919 | 1,683,277 | | |
| Laundry and Vending | 41,854 | 46,263 | 41,854 | | |
| Tenant Charges | 58,150 | 0 | 58,150 | | |
| Interest | 0 | 37,207 | 0 | | |
| Misc. Income | 5,310 | 61,032 | 5,310 | | |
| **Total Effective Gross Revenue** | **1,782,159** | **1,838,421** | **1,788,591** | | |
| **Expenses** | | | | | |
| Taxes | 222,676 | 205,357 | 222,676 | | 1,485 |
| Insurance | 160,800 | 165,997 | 160,800 | | 1,072 |
| Management Fees | 71,705 | 69,532 | 71,705 | 4.01% | 478 |
| Administrative | 110,500 | 151,127 | 110,500 | | 737 |
| Payroll | 165,000 | 128,299 | 165,000 | | 1,100 |
| Utilities | 211,750 | 203,440 | 211,750 | | 1,412 |
| Operating & Maintenance | 196,000 | 297,263 | 196,000 | | 1,307 |
| Replacement Reserve | 45,000 | 36,300 | 45,000 | | 300 |
| **Total Expenses** | **1,183,431** | **1,257,315** | **1,183,431** | | 7,890 |
| **Net Operating Income** | **598,728** | **581,106** | **605,160** | | |
| First Mortgage | 518,826 | 650,400 | 533,791 | | |
| Second Mortgage SAIL | 0 | 33,840 | 33,840 | | |
| SMI | 0 | 0 | 0 | | |
| Fees | 0 | 123,294 | 0 | | |
| **Total Debt Service Payments** | **$518,826** | **$807,534** | **$567,631** | | |
| **Cash Flow Before Tax** | **79,902** | **(226,428)** | **37,529** | | |
| **DSC** | | | | | |
| 1st Mortgage & Fees | 1.15 | 0.75 | 1.13 | | |
| All Mortgages | 1.15 | 0.72 | 1.07 | | |

# Exhibit A

## <u>Current Organizational Chart</u>



# Exhibit B

## Proposed Organizational Chart