FIRST HOUSING
SERVICE • FINANCE • COMPLIANCE

July 20, 2016

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

Re: Sumerset Housing Apartments – Florida Housing Finance Corporation Multifamily Mortgage Revenue Bonds ("MMRB") 2003 Series S-1 and S-2, State Apartment Incentive Loan Program ("SAIL") 2002-139BS & 4% Housing Credit ("HC") 2003-517C

First Mortgage Refinancing/Subordination of SAIL, SAIL Land Use Restriction Agreement ("LURA"), MMRB LURA and HC Extended Low-Income Housing Agreement ("ELIHA") Subordination

Dear Mr. Fowler:

At the request of Florida Housing Finance Corporation ("FHFC"), First Housing has reviewed a request dated May 22, 2015 from Eric Richelson, a representative of Sumerset Apartments, LLC ("Borrower"), requesting that FHFC approve the refinancing of the existing first mortgage loan, subordination of the existing SAIL, SAIL LURA, MMRB LURA, and HC ELIHA to the new first mortgage, all of which are requirements of the new first mortgage lender. Subsequently, First Housing received an updated request in regards to the new first mortgage, based on email dated June 1, 2016 from Eric Richelson.

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 the purposes of this analysis, First Housing has reviewed the following:

- Rule 67-48.010(15) F.A.C.

- MMRB and SAIL Credit Underwriting Report ("CUR") dated July 18, 2003.

- Borrower Audited Financial Statements for Year Ended December 31, 2015 ("2015 AFS").

- Multifamily Note, dated October 1, 2003 (“Multifamily Note”).
- Wells Fargo Bank, N.A. (“Wells Fargo”) term sheet for permanent financing, dated May 24, 2016.
- ELIHA, dated December 23, 2004.
- SAIL LURA, dated October 7, 2003.
- MMRB LURA dated October 7, 2003.
- SAIL Promissory Note, dated October 7, 2003.
- Borrower’s Sources and Uses of Funds Schedule.
- FHFC Past Due Report, dated May 11, 2016.
- FHFC Noncompliance Report, dated May 11, 2016.
- FHFC Occupancy Report, dated May 2016.
- Annual Management Review and Physical Inspection dated September 14, 2015.

In addition, First Housing has had various conversations with FHFC staff and the Borrower’s representative regarding the requests described above. Our findings are as follows:

<u>Background</u>

Sumerset Housing Apartments is an existing 148-unit multifamily development located at 1051 Lee Road, Orange County, Florida 32810 and consists of seven (7) two-story apartment buildings. The Development contains twenty-seven (27) one bed/one bath units, seventy-six (76) two bed/two bath units and forty-five (45) three bed/two bath units.

The Borrower, Sumerset Apartments, LLC, is a Florida Limited Liability Company formed on March 25, 2002. The General Partner with a 0.01% interest is Richelson GP, LLC, which has Eric Richelson as the sole managing member.

MMRB financing in the original amount of $4,840,000 was issued by FHFC and is in the first lien position. The mortgage is secured by the land, buildings, amenities, improvement, fixtures, and appliances. The mortgage bears interest at the rate of 5.08%. Principal and interest are payable in monthly installments of $25,572 based on a 30-year amortization. The loan matures on May 1,

2036. Based on 2015 AFS, the outstanding principal balance is $4,003,872, accrued interest is $62,401, and outstanding bond fees are $52,794.

The SAIL loan in the a mount of $2,000,000 is non-amortizing and bears a simple 3% interest rate in which annual interest payments are based on available cash flow. All required fees are paid annually. All outstanding unpaid accrued interest and principal are due at maturity on June 1, 2036. As of December 31, 2015, the outstanding principal balance on the loan is $2,000,000 and accrued interest is $719,375.

The development is further restricted by terms and conditions detailed in various loan documents, including but not limited to the MMRB LURA, SAIL LURA and the HC ELIHA. The MMRB LURA and SAIL LURA, require 20% of the units (30 units) to be set-aside at or below 50% of the Area Median Income ("AMI") for 50 years. The HC ELIHA requires 100% of the units to be set-aside at or below 60% AMI for 50 years.

According to the FHFC May 11, 2016 Asset Management Non-Compliance Report, the development team has the following non-compliance items outstanding:

- Landings – Homestead: Failure to make reasonable attempts to rent vacant units. Development being readied for complete rehabilitation.

According to the FHFC May 11, 2016, Past Due Report, the development team has the following past due items outstanding:

- San Sherri Villas: SAIL- Loan matured 2/19/16. Demand letter last sent 4/29/16. Borrower's first mortgage refinancing and SAIL term extension request was approved at the June 24, 2016 FHFC Board meeting.

First Housing conducted an Annual Management Review and Physical Site Inspection of the development on September 14, 2015 and the development was found to be in non-compliance for several discrepancies. The discrepancies were resolved and the review was closed out. A Close-Out Letter was issued on December 4, 2015.

The FHFC Occupancy Report indicates the property was 97.97% occupied, as of May 2016.

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 has received and reviewed a term sheet from Wells Fargo, dated May 24, 2016, for a Loan under Freddie Mac's Capital Markets Execution ("CME") Program. By acceptance of this term sheet, Borrower acknowledges that the Loan will be sold to Freddie Mac and that Freddie Mac intends to sell the Loan into a commercial mortgage backed securitization or similar capital markets execution. In summary, the Borrower has received a funding proposal for first mortgage financing in an amount up to $4,600,000. Anticipated loan terms include a fixed interest rate estimated to be 4.18%, based on 217 basis points over the 7-Year US Treasury Bond of 1.51%, as of June 7, 2016, plus an underwriting cushion of 50 basis points. The term of the loan will be seven (7) years and amortized over 30 years. The maximum loan to value is 80% of the property value, as determined by Freddie Mac.

Wells Fargo will require that Subordination Agreements for the SAIL, SAIL LURA, MMRB LURA and HC ELIHA, if applicable, be executed by FHFC, to certain First Mortgage Documents.

Annual debt service for the development after the refinance is estimated to be which is $90,364 less than the $359,658 in current first mortgage and fees debt service. Cash flow will be improved or maintained and the subject's economic viability will be maintained. The amount of the new first mortgage will pay off the existing first mortgage loan balance and related financing costs. The underwriter will verify the SAIL pay down calculation after confirmation of the new first mortgage loan amount and closing costs prior to closing.

The combined loan to value in the original CUR was 100%, based on the underwritten MMRB of $4,900,000, a SAIL of $2,000,000, and a market value of $6,900,000. Rule 67-48.10(15) requires that the original combined loan to value ratio for the superior mortgage and SAIL loan is maintained or improved. The underwriter reviewed a satisfactory appraisal as prepared by Cushman & Wakefield Regional, Inc., dated June 27, 2016. This appraisal revealed a market value of $7,600,000, resulting in a new loan to value of 87% based on the new first mortgage of $4,600,000, which satisfies this requirement in the rule.

Management Company

The proposed management company is Richelson Management, LLC. ("Richelson Management"). This is a newly formed entity filed on June 28, 2016, which has Eric Richelson as the manager. This new entity is affiliated with the Borrower. The selection of the management company needs to be approved by the FHFC Asset Management Department. Continued approval is subject to on-going performance.

Overall Source and Use of Funds

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

Sources		
New Loan	$	4,600,000
Total Sources	$	4,600,000
Uses		
Payoff existing First Mortgage Loan	$	4,003,872
SAIL Paydown	$	-
Borrower Legal	$	70,000
FNMA Fee	$	118,197
Trustee Fee and Legal	$	7,500
Loan Fees	$	46,000
Third Party Reports	$	30,000
Freddie Mac Fee	$	4,600
Title and Recording	$	46,000
Capital Repairs Escrow	$	226,026
Miscelaneous closing costs	$	10,000
Mortgage Taxes	$	37,805
Total Uses	$	4,600,000

Notes:

- These costs are based on estimates provided by the Borrower which appear reasonable at this time.

<u>Recommendation</u>

First Housing concludes that FHFC's conditions for the refinance of the first mortgage approval set forth in Rule 67-48.010(15) F.A.C. have been met. First Housing recommends the refinancing of the existing first mortgage loan, the subordination of the existing SAIL, SAIL LURA, MMRB LURA and HC ELIHA (if applicable) to the new first mortgage loan, and the modification of any other loan documents as required to effectuate the refinance of the first mortgage, subject to the following conditions:

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

2. FHFC Asset Management Department to approve the selection of the management company, Richelson Management, LLC, as the new management agent for the subject development prior to closing.

3. Review of final loan terms and confirmation that all FHFC's requirements for approval have been met.

4. Borrower shall agree to maintain all set-asides and other requirements of the SAIL documents, SAIL LURA, MMRB LURA and HC ELIHA.

5. Consent of the HC equity provider, if applicable.

6. Satisfactory resolution of any outstanding past due and noncompliance items.

7. Payment of the amount of the SAIL pay down, as determined by Servicer and approved by FHFC, if applicable.

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 67-21.002 and 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 calculation.

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

Prepared by:

Thais Pepe

Thais Pepe
Senior Credit Underwriter

Reviewed by:

Ed Busansky
Senior Vice President

SAIL Pay-Down Calculation

Original First Mortgage	$4,840,000
Original SAIL	$2,000,000
Total	$6,840,000

Original SAIL divided by original total First Mortgage & SAIL = 0.2924

New first mortgage loan amount	$4,600,000
Original first mortgage	$4,840,000
Increased loan amount	-$240,000
Eligible refinancing costs	N/A
Net change	N/A
Increase multiplied by 0.2924	N/A
TOTAL Estimated SAIL Paydown	**$0**

- Before confirming eligible refinancing costs.

Comparative Pro Forma

FINANCIAL COSTS:			First Housing Proforma	Per Unit	2015 AFS First Housing Analysis	Per Unit	Developer Proforma	Per Unit
OPERATING PRO FORMA								
INCOME:	Gross Potential Rental Income		$1,204,893	$8,141	$1,181,268	$7,982	$1,327,536	$8,970
	Other Income							
	Miscellaneous		$33,344	$225	$33,344	$225	$33,000	$223
	Interest Income		$0	$0	$64	$0	$0	$0
	Gross Potential Income		$1,238,237	$8,366	$1,214,676	$8,207	$1,360,536	$9,193
	Less:							
	Economic Loss ercentage:	0.00%	$0	$0	$0	$0	$22,155	$150
	Physical Vac. Loss ercentage:	4.00%	$49,529	$335	$0	$0	$65,713	$444
	Collection Loss ercentage:	1.00%	$12,382	$84	$44,911	$303	$26,551	$179
Total Effective Gross Income			$1,176,325	$7,948	$1,169,765	$7,904	$1,246,117	$8,420
EXPENSES:	Fixed:							
	Real Estate Taxes		$51,003	$345	$49,517	$335	$54,000	$365
	Insurance		$81,634	$552	$79,256	$536	$80,200	$542
	Variable:							
	Management Fee ercentage:	5.00%	$58,816	$397	$57,972	$392	$62,306	$421
	General and Administrative		$107,749	$728	$104,611	$707	$54,200	$366
	Payroll Expenses		$157,424	$1,064	$152,839	$1,033	$168,354	$1,138
	Utilities		$122,557	$828	$118,987	$804	$159,736	$1,079
	Marketing and Advertising		$15,809	$107	$15,349	$104	$21,850	$148
	Maintenance and Repairs/Pest Control		$201,167	$1,359	$238,997	$1,615	$192,007	$1,297
	Reserve for Replacements		$44,230	$299	$42,942	$290	$37,000	$250
Total Expenses			$840,389	$5,678	$860,470	$5,814	$829,653	$5,606
Net Operating Income			$335,936	$2,270	$309,295	$2,090	$416,464	$2,814
Debt Service Payments								
	First Mortgage		$269,294	$1,820	$306,864	$2,073	$263,580	$1,781
	Second Mortgage - SAIL		$60,000	$405	$60,000	$405	$60,000	$405
	Other Fees - Agency/Servicer		$6,208	$42	$52,794	$357	$0	$0
Total Debt Service Payments			$335,502	$2,267	$419,658	$2,836	$323,580	$2,186
Cash Flow after Debt Service			$435	$3	-$110,363	-$746	$92,884	$628
			Annual		Annual		Annual	
Debt Service Coverage Ratios								
	DSC - First Mortgage		1.25		1.01		1.58	
	DSC - First & Second Mortgages		1.02		0.84		1.29	
	DSC - All Mortgages and Fees		1.00		0.74		1.29	
Financial Ratios								
	Operating Expense Ratio		71%		74%		67%	
	Break-even Economic Occupancy Ratio (all debt)		95%		105%		85%	

Note: The underwriter reduced the Maintenance and Repairs line item due to the Audit Financial Statements including replacement reserve expenses in that category. Additionally, the Capital Repairs Escrow funded at closing will be used for the immediate needs of the property, which will reduce the Maintenance and Repairs needs.