SELTZER MANAGEMENT GROUP, INC.

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July 15, 2016

*VIA EMAIL*

Mr. Todd Fowler
Florida Housing Finance Corporation
227 North Bronough Street
Tallahassee, Florida 32301

Re: Park Springs Apartments (formerly known as Lakeside Apartments)
SAIL 1999-077S/4% HC 2000-503C

Transfer of Ownership/Assumption of SAIL Documents and ELIHA/First Mortgage Refinancing/Subordination of SAIL and ELIHA

Dear Mr. Fowler:

On your behalf, Seltzer Management Group, Inc. (“SMG”, “Seltzer” or “Servicer”) has reviewed a request dated May 23, 2016, from a representative of Woodcreek Apartments, Inc. (“WCGP”), as General Partner of Woodcreek, Ltd. (“WC” or “Current Borrower”), requesting Florida Housing Finance Corporation (“FHFC” or “Florida Housing”) to consent to the transfer of the ownership of Park Springs Apartments (the “Subject Development” or “Park Springs”) from WC to Harmony Shelf 7, LLC (“PS7” or “New Borrower”) and the assumption of the State Apartment Incentive Loan (“SAIL”) Documents and Extended Low Income Housing Agreement (“ELIHA”). Specifically, SMG has been requested to determine that PS7 has the prerequisite financial strength and experience to successfully own and operate the Subject Development. The letter also requested the approval by FHFC of the refinancing of the existing first mortgage loan and the subordination of the existing SAIL Documents and ELIHA all of which are requirements of the new first mortgage lender.

Subsequently, Seltzer was notified that the current management company will be replaced, and has, therefore, examined the management experience of the proposed new firm.

For the purposes of this analysis, SMG has reviewed the following:

1. Correspondence seeking Florida Housing’s consent of the request outlined above
2. SAIL Credit Underwriting Report (“CUR”) prepared by First Housing Development Corporation (“FHDC”), dated October 15, 1999
3. SAIL Promissory Note, Mortgage and Security Agreement, and LURA, all dated March 13, 2000
4. Second Amended and Restated Promissory Note, dated March 11, 2016
5. ELIHA between FHFC and Borrower, dated October 27, 2000
6. Borrower Audited Financial Statements, prepared by Moss, Krusick & Associates, for the years ending December 31, 2015 and 2014, respectively
7. Rule 67-48.010(15), F.A.C. and 67-48.0105(5)-(6), F.A.C.
8. New Borrower’s Source and Use of Funds Schedule
9. A refinancing term sheet from KeyBank Real Estate Capital (“KeyBank”), dated July 13, 2016
10. FHFC Occupancy Reports
11. Annual Compliance Review and Physical Inspection completed by FHDC, dated January 15, 2016
12. FHFC Past Due Report dated May 11, 2016
13. FHFC Noncompliance Report dated April 1, 2016

14. Proposed Organizational Chart for the New Borrower
15. For the sole member of the of the sole member (or "Master Borrower") of the New Borrower:
    - State of Delaware Certificate of Amended and Restated Certificate of Incorporation of FARH-Lamplighter Affordable Housing, Inc.
    - State of Delaware Certification of name change from FARH-Lamplighter Affordable Housing, Inc. to Foundation for Affordable Rental Housing Holdings, Inc. ("FARHH")
    - Second Amended and Restated Certificate of Incorporation of FARH-Lamplighter Affordable Housing, Inc. hereafter to be known as FARHH.
    - FARHH IRS Tax Exempt Letter dated June 30, 2014
    - FARHH certified financial statements dated March 31, 2016, December 31, 2015 and December 31, 2014 as well as FARHH tax returns for the years ending December 31, 2014 and 2013
    - Trade references; Multifamily Ownership and Loan History; Statement of Financial/Credit Affairs

In addition, SMG has had various conversations with FHFC Staff, the Current Borrower's, and the New Borrower's representative regarding the requests described above.

Our findings are as follows:

<u>Background</u>

Park Springs is a family development located at 300 Park Springs Circle, Plant City, Hillsborough County, Florida, consisting of 200 rental apartment units located in 25 two-story garden style residential buildings, plus a clubhouse building.

WC was formed in September 1998. The current General Partner is WCGP with a .10% partnership interest. WC has a limited partner, Columbia Housing/PNC Institutional Fund II Limited Partner with a 99.89% partnership interest and a special limited partner, Columbia Housing SLP Corporation, with a 0.01% partnership interest. The Subject was developed by Park Richey Development, Inc., whose principal owner was A. Wayne Rich.

The Subject Development originally received a Multifamily Housing Revenue Bonds ("MMRB") first mortgage loan in the amount of $9,180,000 funded from the sale of a Hillsborough County Housing Finance Authority bond issue, Tax-Exempt Housing Revenue Bonds Series 1999, in the same amount. Terms of the loan include a 40-year maturity, 38-year amortization schedule and a fixed interest rate of 6.5%. Current annual principal and interest payments total $662,275; however, after July 1, 2016, annual principal and interest payments will adjust to $662,725. The current principal balance is $7,930,000 with an additional $75,000 principal payment due July 1, 2016.

The development closed on the SAIL in the amount of $2,375,578 on March 13, 2000. The loan originally had an interest rate of 9% per annum on the outstanding principal balance in which annual interest payments were based on available cash flow ("ACF"). On March 11, 2016, the 9% interest rate was reduced to 3% interest per annum on the outstanding principal balance in which annual interest payments are based on ACF. All required fees are paid annually. All outstanding unpaid interest and principal are due at maturity, July 1, 2039. The outstanding principal balance of the SAIL is $2,375,578. Deferred SAIL interest payable in connection with the interest rate reduction totals $750,858.24. Assuming an August 31, 2016 closing, SAIL interest of approximately $33,779 will also be due.

Other funding sources included equity derived from the sale of MMRB accompanying "in-kind" 4% HC and deferred developer fee.

The Current Borrower's Audited Financial Statements did not reflect any going concern comments. The financial statements reflect that the development generated sufficient income to meet operating expenses and to service all the mortgage debt and related fees; however, net losses were reported for the same respective periods primarily due to non-cash expenses including depreciation and amortization. Liabilities in the amount of $12,789,449 exceed total assets of $7,468,747 resulting in a partners' deficit in the amount of $5,320,702.

Operation of the Subject Development is restricted by terms and conditions detailed in various loan documents, including but not limited to the SAIL LURA and ELIHA. Set asides for the ELIHA are 100% of the units at 60% of Area Median Income ("AMI") for 30 years. The SAIL set asides are 99% of the units (198 units) at 60% or less of AMI and 10% of the units are targeted to the homeless population for 50 years.

As of March 31, 2016, Park Springs reported occupancy at a rate of 99.5%. Average occupancy for the first four (4) months of 2016 was 99.38%. Average occupancy for 2015 exceeded 95%.

The most recent Management Review and Physical Inspection reported several physical discrepancies which were subsequently resolved. The review was closed out on March 17, 2016.

The FHFC Noncompliance Report dated April 1, 2016 lists a property owned by the Current Borrower as in noncompliance. Regency Palms fka Park Richey is listed in noncompliance for failure to provide required tenant program for SAIL, failure to document eligibility, failure to meet Uniform Physical Condition Standards ("UPCS") for units, and failure to meet UPCS for buildings. The FHFC Past Due Report dated May 11, 2016 also reflects Regency Palms as Past Due for December 2014 and January 2015 monthly payments to the first mortgagee, Pasco County HFA Bonds.

<u>Ownership Transfer</u>

The Real Estate Purchase and Sale Agreement dated May 19, 2016 is between WC as Seller and Harmony Housing Advisors, Inc. ("Harmony") as Buyer for a purchase price of $13,100,000. Receipt and satisfactory review of an Assignment from Harmony to PS& is a condition of Seltzer's recommendation.

PS7 is a Limited Liability Company that will be registered with the State of Florida prior to closing and will likely be renamed. The sole member of PS7 is Harmony Fannie Mae Facility I, LLC ("Master Borrower"). The sole member of the Master Borrower is the Foundation for Affordable Rental Housing Holdings, Inc. ("FARHH"). Receipt and satisfactory review of State of Florida Certificates of Formation and executed Operating Agreements for PS7 and Master Borrower are conditions of Seltzer's recommendation. As a not yet formed entity, PS7 has no financial statements, trade references, previous multifamily ownership history or contingent liabilities.

The predecessor of FARHH is FARH-Lamplighter Affordable Housing, Inc. ("FAHR-Lamplighter"), a Delaware corporation formed to conduct business on October 11, 2005. FAHR-Lamplighter received approval as a non-profit corporation under Section 501(c)(3) of the Internal Revenue ("IRS") Code on November 10, 2005. On April 29, 2014, FARH-Lamplighter filed a restated certificate changing its name to FARHH. FARHH is a Delaware non-stock corporation. Seltzer received a copy of the Amended and Restated By-laws of FARHH indicating that the only members of FARHH are the persons who accept election as a director shall automatically, and without any further action or writing, become and remain a member for as long as he/she remains a director and will cease to be a member at the time he/she ceases to be a director. There may be no fewer than three (3) directors. Notwithstanding the foregoing, all of the directors may simultaneously resign as members of FARHH and admit an organization that is a non-profit under 501(c)(3) of the IRS Code, as amended, as the sole member of FARHH. Thereafter, no additional member shall be admitted without the consent of the sole member. A fully approved and executed copy of the Amended and Restated By-laws for FARHH was provided dated July 23, 2014. On May 7, 2014 a letter was sent to the IRS advising that the entity name of the tax ID number for FARH-Lamplighter was changed to FARHH. A response letter from the IRS dated June 30, 2014 indicates that FARHH is a non-profit entity under Section 501(c)(3) of the IRS Code. In November, 2012, FARH-Lamplighter sold its only asset and has not been active since that time.

FARHH d/b/a Harmony Housing and its affiliate Foundation for Affordable Rental Housing, Inc. ("FARH") n/k/a Harmony are non-profit corporations under 501(c)(3) of the IRS Code, therefore the experience of the corporation falls to the board of directors. The current Vice President and Secretary of FARHH is Stephen Rosenberg. FARH is an active owner and operator of affordable multifamily properties since it was founded almost a decade ago through the sponsorship of Mr. Rosenberg. FARHH presently owns 2,836 units. Most properties were acquired with a combination of relatively conventional first lien bank debt and, when necessary, financial support from Mr. Rosenberg directly or by one of Mr. Rosenberg's Greystone companies. Permanent financing on these properties would then be obtained from either Fannie Mae or HUD. FARH seeks to remain a long term owner and operator of acquired properties obligating to maintain them as rent and income restricted affordable rental properties for at least a term of 15 years.

FARHH provided certified financials prepared and signed by Cheryl A Cunningham for the period ending March 31, 2016. The March 31, 2016 financial statements reflect a positive net income for the year 2016. Total assets in the amount of $180,768,504 exceed total liabilities of $164,529,576 resulting in a partners' equity of $16,238,928. The balance sheet reflects total current assets in the amount of $47,455,809.

Management Company

A resume for Greystone Property Management Corporation ("GPMC") shows it was formed in 2005 as a full service property management firm that provides an array of management services including site management, leasing, marketing, accounting, financial reporting, construction project management and human resource management. GPMC currently manages twenty-four (24) multifamily properties totaling 4,578 units, located in Florida, Indiana, Kentucky, Louisiana, North Carolina, Tennessee, and Texas. The selection of the management company, GPMC, is currently in the process of being approved by the FHFC Asset Management Department. Receipt and satisfactory review by Seltzer of verification that the selection of the management company, GPMC, is approved by the FHFC Asset Management Department, prior to GPMC assuming management responsibilities at Park Springs is a condition of Seltzer's recommendation.

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 67-48.0105(5) 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.

SMG has received a preliminary term sheet from KeyBank for first mortgage loan financing for the acquisition of Park Springs in an amount up to $11,569,000. Terms include a fixed interest rate, 12-year maturity, and monthly interest only payments for 72-months followed by monthly principal and interest payments based on a 30-year amortization schedule. The interest rate, based on the 10-year Treasury (currently 1.50%) plus a spread of 2.06%, would be 3.56%. An origination fee of 60 basis points of the loan amount is payable at closing.

KeyBank will require FHFC to execute Subordination Agreements for SAIL and ELIHA, as applicable, to certain KeyBank documents.

Annual debt service for the refinanced first mortgage loan is currently estimated to be $411,856 (at the estimated rate of 3.56%) during the interest only period and $628,058 during the principal and interest period which are $253,419 and $37,216 annually less, respectively, than the current MMRB loan payment. Cash flow will be improved and the subject's economic viability will be maintained.

The original combined first mortgage loan and SAIL to value ratio ("LTV") was 82.59%, as reflected in the SAIL CUR. SMG understands that KeyBank has engaged an appraisal but it has not yet been completed. This recommendation is contingent upon receipt and satisfactory review a full narrative appraisal and confirmation that the combined new permanent fisrt mortgage and SAIL LTV is less than or equal to 82.59% thereby confirming that Florida Housing's lien position will not be adversely affected.

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The new first mortgage loan will be utilized along with an assumption of the SAIL Loan and cash from the New Borrower to purchase the Park Springs development. The purchase price paid to the Current Borrower will be utilized to redeem the outstanding MMRB loan and satisfy other expenses payable.

Overall Sources and Uses of Funds

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

| | | | |
|---|---|---|---|
| **Sources** | | | |
| KeyBank/Fannie Mae Loan | | $ 11,569,000 | |
| FHFC SAIL Assumption | | $ 1,652,380 | |
| PS7 | | $ 1,639,318 | |
| Other | | $ - | |
| Total Sources | | | $ 14,860,698 |
| | | | |
| | | | |
| **Uses** | | | |
| Purchase Price | | $ 13,100,000 | |
| Capital Expenditures | | $ 841,000 | |
| SAIL Paydown (estimate) | | $ 723,198 | |
| *Borrower Legal Fees | | $ 30,000 | |
| *Other Transaction Costs | | $ 33,448 | |
| *Title and Recording | | $ 63,633 | |
| *Origination Fee | | $ - | |
| *Financing Fee | | $ 69,418 | |
| Other | | $ - | |
| Total Uses | | | $ 14,860,698 |
| | | | |
| | | | |
| * Eligible Transactions Costs for SAIL paydown, as applicable | | | |

Previous SAIL interest deferrals will be paid by Seller and have not been included above. The SAIL pay down amount will first be applied to deferred interest (currently estimated to be $33,779) since the 9% to 3% conversion and the remaining balance to principal. The SAIL assumption amount assumes the SAIL pay down amount (less interest application) included above. The remaining costs are based on estimates provided by the New Borrower, which appear reasonable at this time.

Summary and Recommendation

Seltzer's review indicates that the New Borrower through the Board of Directors of the Master Borrower's sole member has the prerequisite financial strength and experience to successfully own and operate the subject.

Seltzer concludes that conditions for refinancing approval as set forth in Rule 67-48.010(15) F.A.C. have been met, subject to the conditions below.

Therefore, SMG recommends that FHFC consent to and approve the transfer of the ownership interest to PS7, assumption of the SAIL Documents and ELIHA, the refinancing of the existing first mortgage loan, subordination of the SAIL Documents, and ELIHA (as applicable) to the new first mortgage loan, all of which meet the requirements of the new first mortgage lender and modification of any other loan documents required to effectuate the refinancing, subject to the following:

- Review of final first mortgage loan terms and confirmation that all requirements set forth in F.A.C. Rule 67-48.010(15) for approval have been met
- Receipt and satisfactory review a full narrative appraisal and confirmation that the combined new permanent first mortgage loan and SAIL LTV is less than or equal to 82.59% thereby confirming that Florida Housing's lien position will not be adversely affected.
- Receipt and satisfactory review of an Assignment from Harmony to PS7
- Payment of the amount of the SAIL pay down, as determined by Servicer and FHFC, as applicable
- Payment of 3% SAIL interest related to 9% to 3% interest conversion separate from SAIL pay down required by refinancing, as determined by Servicer and FHFC
- Receipt and satisfactory review of State of Florida Certificates of Formation and executed Operating Agreements for PS7 and Master Borrower
- Receipt and satisfactory review of verification that FHFC has approved the New Borrower's selection of the management company, GPMC, prior to GPMC assuming management responsibilities at Park Springs
- PS7 and its entities (if applicable) as well as the withdrawing entities to execute any assignment and assumption documents FHFC deems necessary to effectuate the ownership change including, but not limited to new and other existing guarantees as determined by FHFC
- 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)
- Receipt of a non-refundable transfer and assumption fee equal to one-tenth of one percent of the SAIL principal balance on the date of closing.
- Consent of the HC equity provider, as applicable
- Review and approval of all loan documents consistent with the terms outlined above by Florida Housing and its legal counsel
- Prepayment of any required compliance monitoring fees and servicing fees
- Confirmation of refinancing fees and closing costs prior to closing
- Satisfactory resolution of any non-compliance and past due items
- Any other requirement of FHFC, its legal counsel and servicer

I hope this correspondence has been helpful and please do not hesitate to contact me if I can be of further assistance.

Sincerely,

SELTZER MANAGEMENT GROUP, INC.

Benjamin S. Johnson
President

Exhibit A

Park Springs
SAIL Pay Down Calculation

| | | |
|---|---|---|
| | | |
| Original Balance First Mortgage | | $ 9,180,000 |
| Original Balance SAIL | | $ 2,375,578 |
| Total | | $ 11,555,578 |
| | | |
| Original SAIL divided by total original first and SAIL is | | 20.56% |
| | | |
| New First Mortgage Loan | | $ 11,569,000 |
| Current First Mortgage Balance | | $ 7,855,000 |
| Increase in First Mortgage Loan | | $ 3,714,000 |
| | | |
| Less: Transaction Costs | | $ 196,500 |
| Net Increase/Decrease | | $ 3,517,500 |
| | | |
| Multiplied by: | | 20.56% |
| | | |
| * Total Paydown Required | | $ 723,198 |
| | | |
| * Before confirming eligible transaction costs | | |