
Florida Housing Finance Corporation

Final Credit Underwriting Report

Lake Worth Towers

EHCL – 2001-002E

Section A Board Summary

Section B Loan Commitment Conditions

Section C Supporting Information and Schedules

Prepared by

First Housing

Final Report

August 26, 2003

Section A
Board Summary

Executive Summary

This is an Elderly Housing Community Loan (“EHCL”) Program credit underwriting report for Lake Worth Towers, a 195 unit affordable housing development for the elderly. The subject is an existing 11-story apartment building located at 1500 Lucerne Avenue, Lake Worth, in Palm Beach County, Florida. This is a concrete block structure building containing a total of 195 units, consisting of 82 efficiencies (438 square feet), 92 one bedroom (584 square feet), and 21 two bedroom apartments (745 square feet). All rooms have a bedroom, a bathroom, a kitchen, and a living room. The kitchen contains a stove, refrigerator, sink, and disposal. Laundry facilities are located on all floors except the first. All rooms have popcorn ceiling finish, and carpeted floors throughout the unit, except for the kitchen floors, which are vinyl tile. The interior common area has typical acoustic ceiling tile with recessed fluorescent lighting. The floors are carpeted, and the walls are painted drywall. Other common areas include a fellowship hall, a library, an exercise/game room, a barber/beauty shop, and a café.

Ownership Structure:

The Applicant, Lake Worth Towers, Inc. (“LWT”) is a nonprofit 501 (c)(3) corporation organized in 1965 to provide housing and related facilities and services for elderly persons and families on a non-profit basis in the Lake Worth area. The organization is comprised of eleven members. According to LWT’s bylaws, the affairs of the Corporation are managed by a Board of Directors, consisting of eleven directors. The membership in the Corporation is personal and not transferable. No compensation is paid to the directors for their services.

Copies of the Articles of Incorporation, Corporate Bylaws, and IRS Determination Letter of Non-Profit Status have been provided.

EHCL Loan:

The Applicant has applied to Florida Housing for EHCL funds in the total amount of \$200,000 to finance the proposed life-safety upgrades, consisting of the installation of a fire sprinkler and fire alarm system, in conjunction with upgrades to the existing elevators, at Lake Worth Towers.

The EHCL Loan will be non-amortizing with a 15-year term and an interest rate of 1.25%, comprised of a base rate of 1% plus servicing fees of .25%. Both principal and accrued interest will be due at maturity, while loan servicing fees are due annually.

For purposes of this analysis, First Housing has incorporated an annual debt service on this loan equal to a monthly principal and interest payment, amortized over a 15-year term, at an interest rate of 1.25% (inclusive of annual servicing fees). This results in a 1.019 debt service coverage ratio, inclusive of all mortgages and the EHCL loan, which falls within acceptable parameters.

Other Financing Sources:

This property is currently financed by a HUD Section 202 first mortgage. The mortgage agreement was for the principal sum of \$2,326,000, with installments of principal and interest (at a rate of 3% per annum) commencing in November of 1966 and ending in 2016. The first mortgage has a remaining balance of \$1,098,737 as of August 31, 2003. A review of the September 30, 2002 Audited Financial Statements indicates that the Applicant places \$6,800 per month (\$81,600 per year) into a replacement reserve escrow account. As of July 31, 2003 this account had a balance of \$103,610. Note that in order to utilize these funds, the Applicant must receive written authorization from HUD. The Applicant reports that this process generally takes from three to four weeks. Accordingly, receipt of HUD approval for the release of replacement reserve funds will be a condition of closing.

Total cost of the proposed rehabilitation is equal to \$305,820. Of this amount, \$200,000 would be funded from the recommended total EHCL loan. The remaining \$105,820 will be funded from the Applicant's reserve for replacements escrow account and applicant's equity, satisfying the EHCL requirement that at least a fifteen (15) percent match of funds is made by the Applicant to complete the proposed improvements. A review of the Applicant's financial statements indicates sufficient liquidity to fund the required equity.

Additional Information:

None

Issues and Concerns:

None

Recommendation:

First Housing recommends that a total EHCL Program loan in the amount of \$200,000 be awarded to this development. This recommendation is based upon the assumptions detailed in the Board Summary (Section A) and subject to the Loan Conditions outlined in the Loan Commitment Conditions (Section B). The reader is cautioned to refer to these sections for complete information.

Prepared by:



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Reviewed by:



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Lake Worth Towers**EHCL 2001-002E Application****2001 EHCL Program Recommendation: \$200,000**

Development Type
Life safety upgrades to existing
buildings

Applicant/Borrower
Lake Worth Towers, Inc.

Mortgagor
HUD

Site Area
1.8 acres

Density
108.3 dwelling units per acre

Zoning
MF 20: Subject is an existing conforming
use

Net Operating Income
\$106,593

Appraised Value
\$1,100,000
(Restricted by HUD Section 236)

Total Rehabilitation Cost
\$305,820

Rent Roll

MSA - West Palm Beach / Boca Raton

Bed-rooms	Baths	No. of Units	Unit Size (SF)	Section 202 Contract Rents	Underwriter Rents	Annual Rents
EFF	EFF	82	438	\$310	\$310	\$305,040
1	1	92	584	\$425	\$425	\$469,200
2	1	21	745	\$490	\$490	\$123,480
Totals		195	105,289			\$897,720

Note: Underwriter rents are based upon actual contract rents. Note also that rents are inclusive of all utilities.

Sources of Funds

Source	Lender	Applicant	Revised Applicant	Underwriter	Interest Rate	Term Years
EHCL Loan	FHFC	\$200,000	\$200,000	\$200,000	1.25%	15
Reserves for Replacement	Escrow Acct.	\$101,820	\$101,820	\$103,600		
Equity	Applicant	\$0	\$0	\$2,220		
Total		\$301,820	\$301,820	\$305,820		

Note: HUD has not yet approved the allocation of \$103,600 from the Reserves for Replacement fund. The Applicant states that this process normally takes from three to four weeks. Accordingly, receipt of HUD approval for the release of replacement reserve funds will be a condition of closing.

Ratios

<u>Total Cost per Unit</u> \$1,568	<u>Total Cost per Bedroom</u> \$1,416	<u>EHCL Loan to Cost</u> 65.40%
<u>Combined Loan to Value</u> ¹ 118.07% (Restricted Rents)	<u>Combined DSC Ratio</u> ² 1.019	<u>FHFC Assistance per Unit</u> \$1,026

Notes 1 and 2: This includes 1st mortgage in the amount of \$1,098,737 and EHCL Loan.

Uses of Funds

	Application Total Costs	Applicant's Revised Total Costs	Underwriter's Total Costs
Actual Construction Cost			
Construction Contract			
Fire Sprinklers	\$163,000	\$163,000	\$163,000
Fire Upgrade Elevators	\$103,020	\$103,020	\$103,020
Fire Alarm Life Safety	\$35,800	\$35,800	\$35,800
Credit Underwriting Fee	\$0	\$0	\$2,200
Real Estate Appraisal Fee	\$0	\$0	\$1,500
FHFC Application and Commitment Fees	\$0	\$0	\$300
Total Actual Construction Cost	\$301,820	\$301,820	\$305,820

Notes to the Uses of Funds:

1. The Underwriter's Total Cost estimate for the Installation of the fire sprinkler and fire alarm system, in conjunction with upgrades to the existing elevators is based upon bids from Sun State Fire Protection, Inc. and Atlantic Elevator Sales & Service, Inc., both dated in 2000. Receipt and acceptance of revised bids that are substantially similar in size and scope will be a condition of closing.

Operating Proforma

DESCRIPTION	FYE	FYE	Proforma	Per Unit
Revenue	9/30/2001	9/30/2002	2003	
Gross Potential Rental Revenue	\$842,880	\$868,512	\$897,720	\$4,604
Less: Vacancy and Collection Loss	(\$16,987)	\$0	\$8,977	
Gross Potential Income	\$825,893	\$868,512	\$888,743	\$4,558
Other Income	\$77,253	\$76,223	\$75,000	\$385
Total Effective Gross Revenue	\$903,146	\$944,735	\$963,743	\$4,942
Expenses				
Fixed:				
Taxes and Insurance	\$61,940	\$95,469	\$115,000	\$590
Variable:				
Management	\$62,300	\$53,200	\$56,400	\$289
General & Administrative	\$23,118	\$21,010	\$17,500	\$90
Payroll Expenses	\$220,335	\$197,583	\$200,000	\$1,026
Utilities	\$300,128	\$258,628	\$288,250	\$1,478
Building Services	\$19,881	\$19,728	\$25,200	\$129
Maintenance & Repairs	\$34,952	\$40,038	\$46,200	\$237
Grounds Maintenance	\$23,865	\$25,647	\$27,000	\$138
Reserve for Replacements	\$81,600	\$81,600	\$81,600	\$418
Total Expenses	\$828,119	\$792,903	\$857,150	\$4,396
Net Operating Income	\$75,027	\$151,832	\$106,593	\$547
Debt Service Payments				
First Mortgage	\$89,870	\$89,870	\$89,868	\$461
EHCL	\$0	\$0	\$14,705	\$75
Total Debt Service Payments	\$89,870	\$89,870	\$104,573	\$536
Operating Income After Debt Service - Before Tax Cash Flow	(\$14,843)	\$61,962	\$2,020	\$10
Debt Service Coverage Ratios			Proforma	
DSC - First	0.83	1.69	1.186	
DSC - all loans	0.83	1.69	1.019	

Notes to the Operating Proforma and Ratios:

- The gross revenue is based upon the current income provided by the Applicant. All rents for the units are set by contract through the HUD Section 202 program. Subject rents are significantly below the competition. The subject development can raise rents up to 5% per year, but historically have increased them at approximately 3% per year.
- The subject is currently 100% occupied with a waiting list of 50 to 60. The appraiser used a 1.0% vacancy rate.
- Total operating expenses are based upon the Applicant's 2003 estimated operating expenses, which appear to be reasonable.

4. The total expenses include replacement reserve funding. The amount funded into the Replacement Reserve escrow account is governed by the Applicant's Section 202 contract. Currently, that amount is \$6,800 per month, or \$81,600 per year.
5. The 1st Mortgage debt service amount of \$89,868 represents a year's payment of principal and interest on the Applicant's HUD Section 202 Loan.
6. The debt service coverage ratio of the HUD Section 202 Loan and the proposed 2001 EHCL loan is at 1.019 : 1.
7. The 15-year proforma (attached as exhibit) demonstrates that the property is able to maintain the minimum debt coverage level throughout the term of the EHCL loan.

Section B
Loan Commitment Conditions

Elderly Housing Community Loan (EHCL) Program Recommendation

First Housing Development Corporation ("First Housing") recommends a loan funded through the Florida Housing Finance Corporation's ("Florida Housing") Elderly Housing Community Loan (EHCL) Program under the conditions detailed in this section.

Loan Amount

The 2001 Application EHCL loan amount recommended by First Housing is \$200,000.

1. The loan amount is limited to the lesser of:

\$200,000, or the total cost for the life-safety, building preservation, health, sanitation, or security-related repairs or improvements, less at least 15%, which must be matched by the Sponsor/Applicant.

Applicant's requested amount, which is \$200,000.

Therefore, the total recommended EHCL loan amount is \$200,000.

Elderly Housing Community Loan (EHCL) Program General Conditions

Purpose:

To provide a loan for life-safety (installation of a fire alarm / fire sprinkler system, in conjunction with upgrades to the existing elevators), at Lake Worth Towers, a 195-unit affordable housing development for the elderly located at 1500 Lucerne Avenue, Lake Worth, in Palm Beach County, Florida. Loan proceeds shall not be used to pay for administrative costs, routine maintenance or new construction.

Security/Collateral:

1. A second mortgage lien on the land and improvements
2. A security interest in all personalty of the community
3. Additional collateral as required by the Florida Housing Finance Corporation

Typical Documents:

1. Note, Mortgage
2. Assignment of leases, rents, profits
3. Assignment of management contract, service contracts, etc.
4. Loan Agreement
5. Construction Completion
6. Environmental Indemnity
7. Guarantee of Recourse Obligations
8. General Contractor Bond
9. Other documents as may be required by Florida Housing and Rule Chapter 67-32, F.A.C.

Term:

The loan shall not exceed 15 years, and shall be established on the basis of a credit analysis of the Applicant. Development cash flow and the financial condition of the Applicant, including available reserves accounts, shall be examined to determine the specific loan term.

Rate:

The loan shall be non-amortizing and shall have a 1% simple interest "accrual" rate.

Repayment Schedule:

Repayment of accruing interest shall be deferred until maturity of the note, and payment of principal shall occur at maturity of the note. Loan servicing fees of 25 basis points are due annually. Interest and fees are calculated based on the outstanding principal balance of the loan. All outstanding interest, principal and fees are due at maturity.

For purposes of this analysis, First Housing has incorporated an annual debt service on this loan equal to a monthly principal and interest payment, amortized over a 15-year term, at an interest rate of 1.25% (inclusive of servicing fees, which are due to Florida Housing on an annual basis). This results in a 1.019 : 1 debt service coverage ratio.

Prepayment Penalty:

Prepayment is allowed at any time, without penalty.

Assumption

The loan shall not be assumable upon development sale, transfer or refinancing. If the loan is repaid upon sale, transfer, or refinancing of the Elderly housing community, all available proceeds shall be applied to pay the following items in order of priority:

- a. First Mortgage debt service and fees;
- b. Expenses of the sale;
- c. Elderly Housing Community Loan (EHCL) principal and accrued interest.

Conditions

This recommendation is contingent upon the review and approval of the following items by the Servicer and Florida Housing at least two weeks before closing. Failure to receive approval of these items within this time frame may result in postponement of the closing date.

1. Building permits and any other necessary approvals and permits required to implement the improvements or a letter from the local permitting and/or approval authority stating that all necessary permits and approvals will be issued upon receipt of applicable fees. If a letter is provided, copies of all permits will be required as a condition to the first post-closing draw.
2. Final sources and uses of funds, itemized by source and line item, in a format and in amounts approved by the Servicer. A detailed calculation of the construction interest based on the final draw schedule (see below), documentation of the closing costs, and draft loan closing statement must also be provided. The final sources and uses of funds schedule will be attached to the Loan Agreement as the approved Development budget.
3. Final draw schedule to be approved prior to closing, itemized by line item, and showing the sources of funds for monthly draws. Loan funds must be disbursed pro rata with Borrower's contribution and all other loan funds.
4. Evidence of general liability, flood (if applicable), builder's risk and replacement cost hazard insurance reflecting Florida Housing as Loss Payee/ Mortgagee, in coverages, deductibles and amounts satisfactory to Florida Housing.
5. HUD approval of funding 15% match, if match will be funded from existing replacement reserve account.
6. HUD approval to establish a reserve account into which the applicant submits monthly principal and interest payments, to be held in escrow for future pay-off of the Loan.

This recommendation is contingent upon the review and approval of the following items by Florida Housing and its legal counsel at least two weeks before closing. Failure to receive approval of these items within this time frame may result in postponement of the closing date.

1. Title insurance binder or commitment for title insurance with copies of all Schedule B exceptions in the amount of the Loan.
2. Evidence of general liability, flood (if applicable), builder's risk and replacement cost hazard insurance reflecting Florida Housing as Loss Payee/ Mortgagee, in coverages, deductibles and amounts satisfactory to Florida Housing.
3. Receipt of a legal opinion from the Borrower's counsel acceptable to Florida Housing addressing the following matters:
 - a. The legal existence and good standing of the Borrower and of any partnership that is the general partner of the Borrower (the "GP") and of any corporation or partnership that is the managing general partner of the GP and of any corporate guarantor;
 - b. The due authorization, execution, and delivery by the Borrower and the guarantors, of all Loan documents;

- c. The Loan documents being in full force and effect and enforceable in accordance with their terms, subject to bankruptcy and equitable principles only;
 - d. That the Borrower and the Development are in compliance with all laws and regulations applicable to the construction, development and operation of the Development, and that all permits required for construction, rehabilitation and operation of the Development and any improvements related thereto have been obtained and are in full force and effect;
 - e. The Borrower's and the corporate guarantor's execution, delivery and performance of the Loan documents shall not result in a violation of, or conflict with, any judgments, orders, contracts, mortgages, security agreements or leases to which the Borrower is a party or to which the Development is subject;
 - f. Such other matters as Florida Housing or its counsel may require.
4. Such other assignments, affidavits, certificates, financial statements, closing statements and other documents as may be reasonably requested by Florida Housing or its counsel in form and substance acceptable to Florida Housing or its counsel, in connection with the Loan.
 5. Documentation of the legal formation and current authority to transact business in Florida for the Borrower, the general partner/principal(s) of the Borrower, the guarantors, and any limited partners of the Borrower.
 6. Building permits and any other necessary approvals and permits required to implement the improvements or a letter from the local permitting and/or approval authority stating that all necessary permits and approvals will be issued upon receipt of applicable fees. If a letter is provided, copies of all permits will be required as a condition to the first post-closing draw.
 7. Construction contract or contracts pertaining to improvements to be made with the Loan.
 8. Any other reasonable conditions established by Florida Housing and its counsel.

This recommendation is also contingent upon satisfaction of the following additional conditions.

1. Compliance with all provisions of Section 420.5087, Florida Statutes and Chapter 67-32, Florida Administrative Code (the statute and rule governing the EHCL Program).
2. Satisfactory achievement or completion of all conditions and requirements of the credit underwriting report.
3. Acceptance by the Borrower and execution of all documents evidencing and securing the Loan in form and substance satisfactory to Florida Housing, including, but not limited to, the Promissory Note, the Loan Agreement, and the Mortgage and Security Agreement, setting forth the terms of this commitment letter.
4. At all times there will be undisbursed loan funds (collectively held by Florida Housing, the First Lender and any other sources) sufficient to complete the improvements. If at any time there are not sufficient funds (held by Florida Housing, First Lender and any other sources) to complete the improvements, the Borrower will be required to expend additional equity on the improvement costs or to deposit additional equity with Florida Housing which is sufficient (in Florida Housing's judgment) to complete the

improvements before additional Loan funds are disbursed.

5. Construction Completion Guarantee from Lake Worth Towers, Inc.
6. Environmental Indemnity from Lake Worth Towers, Inc.
7. A mortgagee title insurance policy naming Florida Housing as the insured in the amount of the Loan to be issued at closing. Any exceptions to the title insurance policy must be acceptable to Florida Housing.
8. Property tax and hazard insurance escrow to be established and maintained by the First Lender or the Servicer.
9. A reserve account in which the Borrower will be required to submit monthly principal and interest payments, plus loan servicing fees to be held in escrow by the First Lender or the Servicer.
10. Draw requests subsequent to the first draw request require lien releases from all parties filing notices to owner, acknowledging receipt of all payments due as of the date of the prior draw.
11. Evidence of work in place and amounts due contractors for work completed (or amounts due to Borrower as reimbursement for prior payments to contractors for completed work) is required prior to disbursement of any EHCL funds.
12. Receipt of a draw request and any reasonably required supporting documentation in the format prescribed by the Servicer and Florida Housing. Supporting documentation may include lien releases, title insurance endorsements or other documentation.
13. EHCL funds to be disbursed pro rata with Borrower's matching contribution funds.
14. A Replacement Reserve Fund shall be maintained by the first mortgagee or Florida Housing, for the term of the Loan at a minimum amount of \$418 per unit annually (\$6,800 monthly), as required by the first mortgagee/HUD, and as approved by the Servicer.
15. The receipt by Florida Housing of annual audited financial and operating statements on subject Development and all guarantors.
16. Update the bids for the installation of the fire sprinkler / fire alarm system, in conjunction with the modernization of the elevator system at Lake Worth Towers, Inc. Upon receipt of current bids, a limited Physical Needs Assessment should be obtained. In addition, the PNA should identify whether or not the proposed work will disturb any asbestos containing materials.
17. Any other reasonable requirements of the Servicer, Florida Housing and its legal counsel.

15 YEAR PROFORMA

DESCRIPTION	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	YEAR 7	YEAR 8	YEAR 9	YEAR 10	YEAR 11	YEAR 12	YEAR 13	YEAR 14	YEAR 15
Income															
Total Effective Gross Income	\$963,743	\$1,002,293	\$1,042,384	\$1,084,080	\$1,127,443	\$1,172,540	\$1,219,442	\$1,268,220	\$1,318,949	\$1,371,707	\$1,426,575	\$1,483,638	\$1,542,983	\$1,604,703	\$1,668,891
Expenses															
Fixed:															
Taxes and Insurance	\$115,000	\$119,600	\$124,384	\$129,359	\$134,534	\$139,915	\$145,512	\$151,332	\$157,385	\$163,681	\$170,228	\$177,037	\$184,119	\$191,483	\$199,143
Variable:															
Management	\$56,400	\$58,656	\$61,002	\$63,442	\$65,980	\$68,619	\$71,364	\$74,219	\$77,187	\$80,275	\$83,486	\$86,825	\$90,298	\$93,910	\$97,667
General & Administrative	\$17,500	\$18,200	\$18,928	\$19,685	\$20,473	\$21,291	\$22,143	\$23,029	\$23,950	\$24,908	\$25,904	\$26,940	\$28,018	\$29,139	\$30,304
Payroll Expenses	\$200,000	\$208,000	\$216,320	\$224,973	\$233,972	\$243,331	\$253,064	\$263,186	\$273,714	\$284,662	\$296,049	\$307,891	\$320,206	\$333,015	\$346,335
Utilities	\$288,250	\$299,780	\$311,771	\$324,242	\$337,212	\$350,700	\$364,728	\$379,317	\$394,490	\$410,270	\$426,680	\$443,748	\$461,498	\$479,957	\$499,156
Building Services	\$25,200	\$26,208	\$27,256	\$28,347	\$29,480	\$30,660	\$31,886	\$33,161	\$34,488	\$35,867	\$37,302	\$38,794	\$40,346	\$41,960	\$43,638
Maintenance & Repairs	\$46,200	\$48,048	\$49,970	\$51,969	\$54,047	\$56,209	\$58,458	\$60,796	\$63,228	\$65,757	\$68,387	\$71,123	\$73,968	\$76,926	\$80,003
Grounds Maintenance	\$27,000	\$28,080	\$29,203	\$30,371	\$31,586	\$32,850	\$34,164	\$35,530	\$36,951	\$38,429	\$39,967	\$41,565	\$43,228	\$44,957	\$46,755
Reserve for Replacement	\$81,600	\$81,600	\$81,600	\$81,600	\$81,600	\$81,600	\$81,600	\$81,600	\$81,600	\$81,600	\$81,600	\$81,600	\$81,600	\$81,600	\$81,600
Total Expenses	\$857,150	\$888,172	\$920,435	\$953,988	\$988,884	\$1,025,175	\$1,062,918	\$1,102,171	\$1,142,994	\$1,185,449	\$1,229,603	\$1,275,524	\$1,323,281	\$1,372,948	\$1,424,602
Net Operating Income	\$106,593	\$114,121	\$121,949	\$130,091	\$138,559	\$147,365	\$156,524	\$166,049	\$175,955	\$186,257	\$196,971	\$208,114	\$219,703	\$231,755	\$244,289
Debt Service Payments															
First Mortgage	\$89,868	\$89,868	\$89,868	\$89,868	\$89,868	\$89,868	\$89,868	\$89,868	\$89,868	\$89,868	\$89,868	\$89,868	\$89,868	\$89,868	\$89,868
EHCL	\$14,705	\$14,705	\$14,705	\$14,705	\$14,705	\$14,705	\$14,705	\$14,705	\$14,705	\$14,705	\$14,705	\$14,705	\$14,705	\$14,705	\$14,705
Total Debt Service Payments	\$104,573	\$104,573	\$104,573	\$104,573	\$104,573	\$104,573	\$104,573	\$104,573	\$104,573	\$104,573	\$104,573	\$104,573	\$104,573	\$104,573	\$104,573
Operating Income After Debt Service - Before Tax Cash Flow	\$2,020	\$9,547	\$17,376	\$25,518	\$33,986	\$42,792	\$51,951	\$61,476	\$71,382	\$81,684	\$92,398	\$103,541	\$115,129	\$127,182	\$139,716
Debt Service Coverage Ratios															
First Only	1.186	1.270	1.357	1.448	1.542	1.640	1.742	1.848	1.958	2.073	2.192	2.316	2.445	2.579	2.718
First and SA/L/HOME	1.019	1.091	1.166	1.244	1.325	1.409	1.497	1.588	1.683	1.781	1.884	1.990	2.101	2.216	2.336