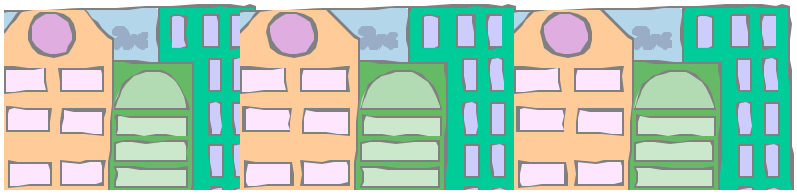
Office of Multifamily Housing Assistance Restructuring



Deal Profile: **Bifurcated New First Using Out Year HAP, Tax-Exempt Bonds, Tax Credits, Significant Rehab**

Date of Presentation: **December 17, 2001**

Questions and Answers

1. M2M Savings

Q. What were the savings in this deal?

A. The projected total net savings to the government is $3.7 Million. There was a significant reduction from Contract Rent to Market Rent averaging over $300 per unit per month.

2. Terms of the Bifurcated Mortgage

Q. Explain the terms of the "A" piece and the "B' piece of the new first mortgage.

A. The "A" piece of the new 223(a)(7) note is based on the M2M projected Net Operating Income, using 1.2 Debt Service Coverage, with a term of 33.5 years, at a rate of 6.35% plus MIP. (Please note that the (a)(7) term limit is now 30 years) The "B" piece term coincides exactly with the remaining term of the original HAP contract. This was about a year from the time of Closing.

Q. What is the Debt Service Coverage on the "B" piece?

A. The DSC is 1.0 on the "B" piece. The payment of the "B" piece is the projected amount of the excess Section 8 above Market Rent. There was a 5% vacancy loss written into the calculation. As the HAP payments come in, the Owner recaptures the "surplus " Section 8 and disburses it as the "B" piece of the note.

Q. Are there 2 lenders, one for the "A" piece and one for the "B" piece?

A. No, just one lender, but there are 2 amortization schedules.

3. Rehab Needs

Q. What was the latest REAC score?

A. The property received a score in the 80s.

Q. Why were the Rehab Needs so high if the REAC score was in the 80s? Can you break down the major items in the Rehab Escrow?

A. The Rehab Escrow, including the contingency factor, totaled approximately $1.8 Million, or $9,000 per unit. The major components of the Rehab include $433,000 for façade repairs to the tower building, repair of corroding steel exterior stairs and decks on the town home units projected at $275,000, elevator work at $192,000 and replacement

of the central air handler and A/C system located on top of the tower building at a cost of $112,000. The plan also allowed for accelerated HVAC replacement in the town homes as most of the equipment was original and starting to fail. The remaining funds were used mainly for worn interior floors, appliance replacement and kitchen/bathroom remodeling where needed. If not for the additional funds generated by the issuance of tax-exempt bonds and the sale of tax credits, some of the interior repairs and replacements would otherwise have had to been front-loaded in the first few years of the Reserve for Replacement schedule.

4. Payment of Claim

Q. How much was the Partial Payment of Claim (PPC), and how did this compare to the Unpaid Principal Balance (UPB) on the existing loan?

A. The Partial Payment of Claim was $6.2 Million and the Unpaid Principal Balance was approximately $9.1 Million.

Q. Did the amount of the PPC change when the additional funds were factored into the restructure?

A. OMHAR's policy is to model a deal reflecting what the PPC would have been without the additional funding. This creates a baseline. Then, the deal is remodeled with the additional funds without changing the PPC so that HUD/OMHAR is in no better or worse position than under the baseline position. This can serve as an incentive for owners to bring in deals with additional funds.

5 Subsidy Layering

Q. Were there any subsidy layering issues?

A. The PAE performed the subsidy layering analysis and determined that there were no compliance issues.

6. Elderly Units

Q. Did the post M2M Closing unit mix of half elderly and half family units change in any way?

A. No, after the restructure 100 units remained restricted under the elderly resident profile guidelines and 100 units remained family.

7. Timing of Bonds and Tax Credits

Q. Were the bonds and the tax credits already in place?

A. The developer had received bond resolution from the City and the bonds were marketed in a time frame to coincide with the M2M closing. It's important for developers to have that process significantly under way so that there are no delays in the M2M restructuring.

8. Capital Recovery Payment (CRP)

Q. Was there a CRP structured into this deal?

A. No. Due to the structure of this additional funds transaction, there was no CRP.

9. Ownership and Management Changes

Q. Was the property sold as part of the requirements of obtaining the bonds?

A. Yes, an arms length sale was completed in order to comply with the tax credit regulations. The restructuring was seamless from the perspective of the residents as the existing management company was retained.