08190
Sutton Homes
Board Appeal

REAL ESTATE ANALYSIS

BOARD ACTION REQUEST

April 23, 2009

Item

Presentation, discussion and possible action on a timely filed appeal regarding the underwriting recommendation of a development under the 2008 Competitive Housing Tax Credit program, #08190 Sutton Homes, San Antonio, Texas.

Required Action

Approve, deny or approve with amendments a determination on the appeal.

Background

Mr. Ryan Wilson, the contact for the General Partner of Sutton Homes, submitted an application for funding under the 2008 Competitive Housing Tax Credit program to re-construct 194 units of mixed-income targeting 30%, 50% and 60% and market rate households in San Antonio, Texas. The application was approved to be added to the 2008 waiting list for a forward commitment, subject to underwriting. The Applicant requested $1,200,000 in annual tax credits to support a total development budget of $22,368,240.

The application was recommended for an annual tax credit award of $1,417,486. The recommended amount incorporates the Board's approved policy to allow the full 9% applicable percentage as well as an increase in tax credits based on an additional 10% cushion in direct and site work costs.

The Applicant is appealing the amount of recommended tax credits and asserts that the development now justifies an annual allocation of $1.65M based on new information not previously provided to the Department. Specifically, the Applicant cites a reduction to the permanent loan amount and terms, and a reduction in the syndication rate not previously disclosed. In November 2008 the Board provided all 2008 applications on the waiting list to be considered for a forward commitment an opportunity to provide to the Department by December 1, 2008 an updated syndication commitment letter. Use of the updated commitments for underwriting purposes has been consistently applied to all 2008 applications that received a forward commitment. The syndication commitment submitted by the Applicant on December 1, 2008 was the same commitment letter filed with the original application and dated February 22, 2008. As a result, the Underwriter utilized the syndication rate documented by the Applicant for purposes of determining the recommended credit amount. The Applicant did not attempt to provide new syndication information until the underwriting report was completed. Moreover Section 50.17(b)(3) and a similar section in the 2009 QAP does not allow consideration of new information provided only in the appeal. The Board's decision to allow the Underwriter to consider the updated syndication commitment did not provide an unlimited timeframe for considering other new information.

Recommendation

Staff recommends the Board deny the appeal.

08190
Sutton Homes
Executive Director Response

Rick Perry
GOVERNOR

Michael Gerber
EXECUTIVE DIRECTOR

April 9, 2009

Mr. Scott Marks
Coats | Rose
1717 W. 6th Street, Suite 420
Austin, Texas 78703
Telephone: (512) 469-7987
Telecopier: (512) 469-9408

Re: Executive Director Appeal for Sutton Homes, TDHCA # 08190

Dear Mr. Marks:

Appeal Review

I have reviewed the subject application, as well as your appeal that was received on April 2, 2009 regarding the underwriting recommendation for approval of the forward commitment of 2009 credits in the annual amount of $1,417,486.

Your appeal is based on new information provided in the appeal letter, specifically a reduction to the permanent loan amount and terms and a reduction in the syndication rate. Your appeal asserts that the development justifies an annual allocation of tax credits in the amount of $1.65 million based on this new information. The appeal does not contest that the Underwriter's determination of feasibility and recommended tax credit allocation is incorrect. Rather, you are appealing the tax credit amount based on new information that was previously unavailable to the Underwriter.

Pursuant to §49.17(b)(3) & §49.17(b)(5) of the 2009 QAP, Staff is unable to consider any information that was not provided in your original application unless subsequently provided in a response for information by the underwriter. In November 2008 and as an exception to the above, the Board provided all 2008 applicants receiving a forward commitment of 2009 credits an opportunity to submit by December 1, 2008 an updated syndication commitment letter. Use of these updated syndication commitment letters for underwriting has been consistently applied across all 2008 transactions that received a forward commitment award.

The syndication commitment letter submitted by you on December 1, 2008 was dated February 22, 2008 and the same syndication commitment letter filed with the original application. As a result, the underwriter used the same syndication information contained in the original application. The Board's decision to allow the underwriter to consider the updated syndication commitment did not provide a waiver of the rules with respect to considering other new information intending to amend the original application including the information contained in your appeal.

I have determined that the Department's rules and guidelines were applied evenly, fairly, and as originally intended during the course of the underwriting analysis and in making the recommendation.

Appeal Determination
The appeal is denied.

Pursuant to Title 10 Texas Administrative Code Section 1.7 you have requested that your appeal, if denied by me, be filed with the Board and heard at its next regularly scheduled meeting. This appeal will be considered by the Board at the April 23, 2009 Board meeting.

If you have questions or comments, please call me or Brent Stewart, Director of our Real Estate Analysis Division at (512) 475-2973.

Sincerely,

Michael Gerber
Executive Director

MGG:rbs

08190
Sutton Homes
Appeal

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

REAL ESTATE ANALYSIS

Housing Tax Credit Program – 2008 Application Cycle
Underwriting Report Notice

Appeal Election Form: 08190 Sutton Homes (FC) **Date Notice Sent: 3/26/09**

I am in receipt of my 2008 Underwriting report notice and have reviewed the Appeal Policy at 10TAC Section 50.17(b). I recognize that should I choose to file an appeal, I must file a formal appeal to the Executive Director within seven days from the date this Notice was issued and the Underwriting report was posted to the Department's web site. I understand that my appeal must identify my specific grounds for appeal.
If my appeal is denied by the Executive Director, I

- [x] Do wish to have my appeal to the Board of Directors and request that my appeal be added to the next available Board of Directors' meeting agenda. I understand that my Board appeal documentation must still be submitted by 5:00 p.m., seven days prior to the next Board meeting or three days prior if the Executive Director has not responded to my appeal in order to be included in the Board book. I understand that if no documentation is submitted, the appeal documentation submitted to the Executive Director will be utilized.

- [ ] Wish to wait to hear the Executive Director's response before deciding on my appeal to the Board of Directors.

- [ ] Do **not** wish to appeal to the Board of Directors or Executive Director.

Signed [signature]

Title Attorney for the Applicant

Date 4-2-09

Please fax or e-mail to the attention of:
Pam Cloyde: (fax) 512.475.4420
(e-mail) pamela.cloyde@tdhca.state.tx.us

COATS | ROSE

smarks@coatsrose.com

Direct Fax
(713) 890-3911

HOUSTON
AUSTIN
DALLAS
SAN ANTONIO
CLEARLAKE/GALVESTON CO.
NEW ORLEANS

April 2, 2009

Via Email (pamela.cloyde@tdhca.state.tx.us)
Ms. Pam Cloyde
Real Estate Analysis
TDHCA
221 East 11th Street
Austin, Texas 78701

Re: Appeal of Underwriting Report for Sutton Homes (#08190)

Dear Ms. Cloyde:

Please accept this letter as an appeal of the Underwriting Report issued 3/26/09 for Sutton Homes, TDHCA #08190. Sutton Homes received a forward commitment of 2009 credits in the amount of $1,417,486. This appeal is based on a syndication rate that has dropped by more than 10 cents since the application was submitted and a permanent loan amount that has dropped by more than $1.8 million.

The tax credit allocation amount was underwritten using the "Gap/DCR Method" pursuant to 1.32(c)(2) of the Real Estate Analysis Rules (the "Underwriting Rules"). As required by the Underwriting Rules, the underwriter evaluated "the amount of funds needed to fill the gap created by total development cost less total non-Department-sourced funds or Tax Credits." The applicant's total development cost estimate (with the 10% increase in hard costs approved by the board) was $23,480,500. The underwriter reduced this total development cost amount by three non-TDHCA sources: a permanent loan in the amount of $6,176,716, Replacement Housing Factor Funds from the San Antonio Housing Authority ("SAHA") in the amount of $4,641,000, and an additional SAHA loan in the amount of $900,000. The resulting gap amount to be filled by tax credits was $11,762,784. The underwriter divided this gap amount by the syndication rate of 83 cents per the investor letter of intent submitted with the application to determine the credits to be allocated based on the Gap/DCR Method.

Two critical numbers used in the Gap/DCR Method have changed: the syndication rate to be paid by the tax credit investor and the permanent loan amount. The equity market has experienced a seismic shift since early 2008, and the price to be paid by the investor purchasing the Sutton Homes tax credits is now $0.725 rather than $0.83. Moreover, the permanent loan amount has dropped from $6,176,716 to $4,375,000 because of an increase in the permanent loan interest rate from 7.63% to 8.06% and an amortization of 35 years rather than 40 years. Revised commitment letters are attached, as well as revised volume 1, tab 4, part A ("Summary Sources and Uses of Funds") and volume 1, tab 2, part E ("30-Year Rental Housing Operating Proforma").

As indicated on the attached Summary Sources and Uses of Funds, the Sutton Homes Gap/DCR Method justifies an allocation of $1.65 million in tax credits because of the decreases in the syndication rate and the permanent loan amount. We respectfully appeal the Underwriting Report for Sutton Homes and request tax credits in the amount of $1.65 million per year.

If you have questions, please contact Ryan Wilson at (210) 408-3151 or me at (512) 469-7987.

Sincerely,

Scott Marks

Scott A. Marks

cc: Ryan Wilson

Volume 1, Tab 4. Funding Request

PART A. Summary Sources and Uses of Funds

Describe all sources of funds and total uses of funds. Information must be consistent with the information provided throughout the Application (i.e. Financing Participants and Development Cost Schedule forms). Where funds such as tax credits, loan guarantees, bonds are used, only the proceeds going into the development should be identified so that "sources" match "uses."

Applicants must attach a written narrative to this form that describes the financing plan for the Development. The narrative shall include: (a) any non-traditional financing arrangements; (b) the use of funds with respect to the Development; (c) the funding sources for the Development including construction, permanent and bridge loans, rents, operating subsidies, and replacement reserves; and (d) the commitment status of the funding sources

Development Name: Sutton Homes

Source #	Funding Description	Priority of Lien	Construction or Rehab. Loan Stage Amt.	Permanent Loan Stage Amount	Financing Participants
1	Conventional Loan				
2	Conventional Loan/FHA	1st	$ 4,900,000	$ 4,375,000	B of A/MMA
3	Conventional Loan/Letter of Credit				
4	HOME				
5	Housing Trust Fund				
6	CDBG				
7	Mortgage Revenue Bonds				
8	HTC Syndication Proceeds		$ 11,436,304	$ 11,961,304	B of A
9	Historic Tax Credit Syndication Proceeds				
10	USDA/ TXRD Loan(s)				
11	Other Federal Loan or Grant	2nd	$ 4,641,000	$ 4,641,000	San Antonio Housing Auth.
12	Other State Loan or Grant				
13	Local Government Loan or Grant				
14	Private Loan or Grant	3rd	$ 900,000	$ 900,000	San Antonio Housing Auth.
15	Cash Equity				
16	In-Kind Equity/Deferred Developer Fee		$ 1,603,196	$ 1,603,196	Franklin Development
TOTAL SOURCES OF FUNDS			$ 23,480,500	$ 23,480,500	
TOTAL USES OF FUNDS				$ 23,480,500	

[1] Indicate Exclusive Use Financing Palicipant only where funds from that source are dedicated only for a specific purpose, i.e. CDBG infrustructure

Part E. 30 Year Rental Housing Operating Proforma

The pro forma should be based on the operating income and expense information for the base year (first year of stabilized occupancy using today's best estimates of rental income and expenses), and principal and interest debt service. The Department currently considers an annual growth rate of 3% for income and 4% for expenses to be reasonably conservative estimates. Written explanation for any deviations from these growth rates or for assumptions other than straight-line growth made during the proforma period should be attached to this exhibit.. While the 30-year proforma projects 30 years of data, the Department's standard for financial feasibility is 15 years.

Development Name: Sutton Homes

City: San Antonio

INCOME	LEASE-UP	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 10	YEAR 15	YEAR 20	YEAR 25	YEAR 30
POTENTIAL GROSS ANNUAL RENTAL INCOME		$1,197,609	$1,233,537	$1,270,543	$1,308,660	$1,347,919	$1,562,608	$1,811,491	$2,100,015	$2,434,493	$2,822,244
Secondary Income		58,944	60,712	62,534	64,410	66,342	$76,909	89,158	103,359	119,821	138,905
POTENTIAL GROSS ANNUAL INCOME	$0	$1,256,553	$1,294,250	$1,333,077	$1,373,069	$1,414,261	$1,639,517	$1,900,649	$2,203,373	$2,554,314	$2,961,149
Provision for Vacancy & Collection Loss		94,241	97,069	99,981	102,980	106,070	122,964	142,549	165,253	191,574	222,086
Rental Conessions											
EFFECTIVE GROSS ANNUAL INCOME	$0	$1,162,312	$1,197,181	$1,233,096	$1,270,089	$1,308,192	$1,516,553	$1,758,100	$2,038,120	$2,362,740	$2,739,063
EXPENSES											
General & Administrative Expenses		$ 112,000.00	$116,480	$121,139	$125,985	$131,024	$159,411	$199,948	$235,867	$287,090	$349,289
Management Fee		46,492	48,352	50,286	52,298	54,390	66,173	80,510	97,953	119,174	144,994
Payroll, Payroll Tax & Employee Benefits		200,000	208,000	216,320	224,973	233,972	284,662	346,335	421,370	512,661	623,730
Repairs & Maintenance		101,850	105,924	110,161	114,567	119,150	144,964	176,371	214,583	261,073	317,635
Electric & Gas Utilities		51,600	53,664	55,811	58,043	60,365	73,443	89,355	108,713	132,266	160,922
Water, Sewer & Trash Utilities		68,400	71,136	73,981	76,941	80,018	97,355	118,447	144,108	175,330	213,316
Annual Property Insurance Premiums		42,000	43,680	45,427	47,244	49,134	59,779	72,730	88,488	107,659	130,983
Property Tax		0	0	0	0	0	0	0	0	0	0
Reserve for Replacements		48,500	50,440	52,458	54,556	56,738	69,031	83,986	102,182	124,320	151,255
Other Expenses:		28,000	29,120	30,285	31,496	32,756	39,853	48,487	58,992	71,773	87,322
TOTAL ANNUAL EXPENSES	$0	$698,842	$726,796	$755,868	$786,103	$817,547	$994,671	$1,210,169	$1,472,356	$1,791,346	$2,179,446
NET OPERATING INCOME	$0	$463,469	$470,385	$477,228	$483,986	$490,645	$521,882	$547,931	$565,765	$571,394	$559,617
DEBT SERVICE											
First Deed of Trust Annual Loan Payment		$378,621	$378,621	$378,621	$378,621	$378,621	$378,621	$378,621	$378,621	$378,621	$378,621
Second Deed of Trust Annual Loan Payment											
Third Deed of Trust Annual Loan Payment											
Other Annual Required Payment:											
NET CASH FLOW	$0	$84,849	$91,764	$98,608	$105,366	$112,024	$143,262	$169,311	$187,144	$192,774	$180,997
Debt Coverage Ratio	#DIV/0!	1.22	1.24	1.26	1.28	1.30	1.38	1.45	1.49	1.51	1.48

$127,643 $156,286

1 to 5	$492,611
5 to 10	$ 638,215
10 to 15	$ 781,431

$1,912,257

$1,603,196

MMA Financial, Inc.

MMA FINANCIAL

1705 W NW Highway, Suite 145
Grapevine, TX 76051
T 817.310.5800 F 817.310.3817
www.MMAfin.com

A MuniMae Company

March 25, 2009

Mr. Aubra Franklin
President
Franklin Development Company
21260 Gathering Oaks, Suite 101
San Antonio, TX 78258

RE: **Summary of Terms for a Freddie Mac Unfunded Forward Rate Lock**
Sutton Homes, San Antonio, TX

Dear Mr. Franklin:

Thank you for giving MMA Financial, Inc. ("MMA" or "Lender") the opportunity to provide the following summary of terms for a permanent non recourse loan for the Sutton Homes Apartments (the "Project") located in San Antonio, TX ("Property"). It is our understanding that the Project expects to receive a reservation of low-income housing tax credits and that 186 of the 194 project units will be rent and income restricted.

After our preliminary analysis of the information you provided, we propose financing the permanent loan for the Property using Freddie Mac's Unfunded Forward Rate Lock loan program.

The permanent loan parameters are as follows:

Permanent Loan

Proposed Loan Amount:	$4,375,000, based on current interest rates, per below preliminary loan analysis.
Permanent Note Rate:	To be determined based on Freddie Mac at the time of rate lock. Interest is computed on an Actual/360 basis. As of March 25, 2009 the indicated Unfunded Forward Rate Lock permanent note rate is 8.07%. *The interest rate is subject to daily changes based on changes in market conditions.*
Net Operating Income/Valuation:	The above referenced loan amounts and loan terms outlined herein are based on a preliminary underwritten Net Operating Income of $432,000, replacement reserves in the amount of $250 per unit per year, a minimum final appraised valuation of $4,862,000 and a maximum interest rate of 8.15% to the extent that any of these loan sizing parameters change the loan amount could change.

Permanent Loan Term:	15 years
Amortization:	35 years
Yield Maintenance:	14.5 years, 1% thereafter, open at par for last 90 days
LTV Limitation:	Not to exceed 90% of the "as-stabilized and restricted value", as established by an MAI appraisal, and not to exceed 100% of the development costs of the Property.
Minimum DSCR:	1.15x
Forward Period:	24 months. Lender shall have the option for one six-month extension at no cost to the Borrower. Any further extensions require Freddie Mac approval and may affect the locked interest rate on the Permanent Loan.
Insurance Requirements:	The terms and conditions outlined herein assume that the Borrower will be able to comply with the insurance requirements of Freddie Mac and provide insurance coverage accordingly. The Borrower will be required to provide a written insurance quote for permanent coverage as a component of MMA's underwriting and permanent loan sizing.
Conditions for Loan Funding/Conversion:	The Forward Commitment will have conditions relating to satisfactory completion of improvements, occupancy of 90% for at least 90 consecutive days, apartment leases for initial terms of not less than six months, collected income at or above levels used in underwriting, and adequate debt coverage of 1.15x at the locked permanent interest rate.
Subordinate Financing:	Subordinate financing will be permitted and must be subordinated to the first mortgage using a standard Freddie Mac Subordination and Intercreditor Agreement. Unsecured subordinate financing shall be permitted which is not secured by any interest in the property or the borrowing entity. Notwithstanding the foregoing, any secondary financing is subject to prior written approval by Freddie Mac. Freddie Mac requires that payments on any Subordinate financing must be made out of not more than 75% of available cash flow and that the term of any Subordinate financing must mature at least 90 days after the amortization period on the Freddie Mac Loan which is approximately 37.5 years from closing. Subordinate financing that requires mandatory/hard payments cannot exceed an amount which would generate a combined DSCR of 1.10x or a combined LTV of 90% (when combining the DSCR and LTV of the first mortgage and Subordinate financing).
Replacement Reserves:	To be determined prior to rate lock in an amount recommended by MMA's Plan & Cost review (estimated to be $250/unit per year). In no event will the Replacement Reserve be lower than the greater of what is required by the limited partnership agreement, the Freddie Mac Guidelines, or the Regulatory Agreement.
Third Party Reports:	Appraisal, Market Study, Phase I Environmental Site Assessment, and a Plan & Cost Engineering Review are required.

Permanent Loan Security:	The Permanent Loan will be evidenced by a promissory note executed by Borrower and secured by a first deed of trust, mortgage or deed to secure debt, as applicable, covering the land, together with the improvements and fixtures to be constructed thereon and related personal property and leases of the Property.
Ground Lease / Housing Authority Affiliate:	The Borrower acknowledges that the terms and conditions of the ground lease must be acceptable to Freddie Mac in its sole discretion and that Freddie Mac must receive a leasehold mortgage in a form that is acceptable to Freddie Mac. The ground lease and the fee simple interest in the land must be fully subordinated to the leasehold mortgage pursuant to Freddie Mac's standard form of leasehold subordination agreement. The Borrower acknowledges that as a condition of financing this Loan certain provisions with respect to the Borrowing entity must be met: the general partner of the Borrower must be a Public Facilities Corporation ("PFC"), which is a single purpose single asset entity created by the San Antonio Housing Finance Authority ("SAHA"), which may not voluntarily or involuntarily withdraw from the Borrower without the consent of Freddie Mac. Additionally, Freddie Mac will require that the land owner, the general partner(s) and/or the SAHA PFC entity agree to enter into a new lease with a new Borrowing entity and enter the new Borrowing entity as a PFC general partner, upon the same terms and conditions as the existing lease and the existing Borrowing entity, should Freddie Mac exercise its remedies and foreclose upon the Borrowing entity during the term of the loan.
Recourse:	Non-recourse loan except for standard non-recourse carve-outs to be executed by the key principal(s) where a key principal is an individual(s) with acceptable net worth and liquidity acting in the capacity of general partner or managing member, or, any limited partner or member that may control 25% or more of the borrower. MMA acknowledges that the LIHTC syndicator is not required to execute the non-recourse carveouts.
Assumption:	The loan is assumable at the discretion of MMA and Freddie Mac with a 1% transfer fee and a $3,000 assumption processing fee.
Escrows:	Monthly deposits to an escrow account for the payment of real estate taxes, insurance, and any other lienable expenses will be required.

Section 8 Transition Reserve:

To the extent that the Project is bound by a Section 8 Contract, Freddie Mac will require that the Borrower establish a Section 8 Transition Reserve in an amount equal to six (6) months of debt service at the locked interest rate.

MMA will request that Freddie Mac waive the requirements to fund this reserve if MMA and Freddie Mac market diligence determines that sufficient market demand exists where the Project can remain viable in the event that the Section 8 Contract is terminated.

<u>If the Project is not bound by a Section 8 Contract, then no Section 8 Transition Reserve will be required.</u>

Loan Brokerage/ Indemnification:

Borrower and MMA acknowledge that there are no loan brokers or loan placement agents of record in this transaction. Borrower agrees to indemnify and hold MMA and its principals, officers, affiliates, agents, successors and their assigns harmless from and against any loss, expense, damage, attorney's fees, costs, claims or judgments arising out of or connected with any claims of any nature whatsoever made against MMA in connection with this letter of intent.

Exclusive Right:

MMA is hereby granted the exclusive right to procure a written loan commitment for the Project for a period of sixty (60) days from the date of execution of this financing proposal by the Borrower. Borrower shall not apply for or accept such a loan from any other lender during such period. By signing this financing proposal, borrower acknowledges that MMA will be registering the proposed transaction with Freddie Mac. Borrower acknowledges further that it has made a choice of MMA for a Freddie Mac loan for this transaction.

<u>Other Fees and Deposits</u>

Due Diligence Costs:

$15,000, applied to appraisal, market study, environmental, A&E Review, etc. Any costs for due diligence in excess of the collected deposit are the responsibility of the Borrower and will be collected at initial loan closing and any cost savings that arise via sharing of 3rd party reports will be credited to the Borrower at closing. Third party reports will be shared with other transaction financing participants. Fees for MMA's inspecting engineer will be charged separately during the construction period.

MMA Processing Fee:

Waived

MMA/Freddie Mac Legal Fee Deposit:	$10,000. The legal fee deposit will be applied toward and credited against the total legal fees due at closing. The Borrower agrees and acknowledges that MMA's counsel will be involved in preparing documentation, reviewing diligence items, and attending conference calls prior to loan closing. Legal fees will be payable regardless of whether or not the loan closes and upon acceptance of a loan application the Borrower acknowledges that it obligation to pay all legal fees incurred by MMA is unconditional.
Freddie Mac Application Fee:	The greater of $3,000 or 0.10% of the permanent loan amount.
Freddie Mac Refundable Good Faith Deposit:	3.0% of the maximum permanent mortgage amount. The fee is required to rate lock and is fully refundable and reimbursed at delivery of the permanent loan to Freddie Mac. Upon completion, lease-up and stabilization at 90% occupancy for 90 consecutive days at a sustained 1.15 DSCR, the permanent lien will be recorded and delivered to Freddie Mac. Upon Conversion to the Freddie Mac loan, the Good Faith Deposit will be refunded or released. If Conversion fails to occur, the Borrower will forfeit the 3.0% Good Faith Deposit. Borrower will execute a Delivery Assurance Note that places a junior lien (subordinated to the Project's 1st mortgage and any subordinate mortgages) on the Property as security for a possible non-delivery event in an amount not to exceed 5% of the permanent loan amount. The lien is released upon delivery of the permanent loan. In the event that the loan does not convert for reasons outside of the Borrower's control like failure to complete construction, constructions delays, or failure of the property to achieve stabilized occupancy due to market conditions, Freddie Mac will not have the right to exercise its remedies under the delivery assurance note and the note will be released. If the loan does not convert for reasons outside of the Borrower's control, the Borrower is at risk for only the 3.0% good faith deposit and no other amounts will be due.
Permanent Loan Commitment Fee:	1.50% of the permanent loan amount. The Commitment Fee constitutes (in part) the consideration for Lender to issue a Commitment to Borrower. Borrower agrees to pay Lender the Permanent Loan Commitment Fee, which is fully earned upon acceptance of the Permanent Loan Commitment and payable at closing.
MMA Legal Counsel:	$25,000 estimated, for the construction and permanent loan at initial closing. The foregoing estimate for legal costs assumes that the MMA and Freddie Mac form loan documents are accepted without substantial negotiation and that MMA's due diligence will not reveal conditions warranting additional legal work.

Conversion Costs: The Borrower will be responsible for all costs associated with converting to the permanent loan including but not limited to title and recording costs, survey updates, MMA legal which is estimated at $7,500, and a one-time Conversion processing fee of $10,000 payable at the close of the loan conversion.

The above terms and conditions are a general summary of terms for the proposed transaction and is not a commitment to lend or a binding contract in any way on MMA, its successors or assigns. If the terms and conditions herein are acceptable and you would like us to consider issuing a loan application please execute this document and return it to my office along with a check in the amount of $25,000 which represents a legal fee deposit and application fee. Upon receipt of this executed term sheet and check we will request additional diligence that is required prior to issuing a formal application. A formal application will only be issued after the terms and conditions set forth herein are approved by Freddie Mac and MMA's pre-application loan committees.

Please do not hesitate to contact me should you have any questions.

We very much look forward to working with you on this transaction.

Sincerely,

Timothy R Leonhard

Timothy R. Leonhard
Managing Director

AGREED & ACCEPTED:

ARDC Sutton, Ltd.
Borrower's Name

By: [signature]

Its: Representative

Date: 3/30/09

Bank of America

April 1, 2009

ARDC Sutton, Ltd.
c/o Aubra Franklin
Franklin Development Properties, Ltd.
21260 Gathering Oaks, Suite 101
San Antonio, Texas 78258

Via e-mail: afranklin@franklindevelopment.net and ryan@franklindevelopment.net

Re: Sutton Homes Apartments (San Antonio, Texas)

Dear Aubra:

This letter will serve as a preliminary outline of the terms under which Bank of America (the "Bank") would consider a loan request on the above referenced project. **This letter does not represent an offer or commitment by the Bank for the proposed financing, nor does it define all the terms and conditions of a loan commitment, but is a framework upon which a loan request may be submitted. Issuance of a commitment by the Bank is subject to, among other things, the completion of the following items, and approval of the loan request under the Bank's internal approval process. The Bank may decline to approve the loan request. Upon your response to this letter and after providing any additional information which may be necessary, the Bank will proceed with the necessary due diligence to submit the loan request. The proposed terms and conditions are as follows:**

Project: To be constructed 194-unit apartment complex located on 28.5+/- acres (only a portion of which will be dedicated to this phase of the total contemplated development for this parcel) at the intersection of Hines Ave. and IH-35 feeder Road, San Antonio, Bexar County, Texas.

Borrower: ARDC Sutton, LP — form and substance of Borrower must be acceptable to the Bank.

Reporting Requirements:

Annually: Borrower and Guarantors' financial statements and covenant compliance.

Monthly: Property operating statements and rental summary report.

Know Your Customer: Within five (5) business days of opening an account with Bank, Borrower shall have delivered to Bank all due diligence materials necessary and relevant to verifying Borrower's identity and background information, as deemed necessary by Bank in its sole and absolute discretion.

Other Requirements: All of the following to be acceptable to the Bank: documentation and submissions that are standard for loans of this type including, but not limited to, appraisal, ESA, legal documentation, title/survey, proposed standard lease form, front-end cost and document reviews and acceptance of final budget (includes adequate contingency, interest carry/operating deficit reserve, etc.), review of plans/specs, condition of markets/submarkets, revenue/expenses pro-formas, financial review of Borrower, Guarantor, and general contractor, management agreement and subordination; and (as applicable), proof of tax credit award, equity investor and pay-in schedule, proof of tax-exempt status with respect to ad valorem taxes, payment of an administrative fee of $1,500, and other terms and conditions as may be required.

Confidentiality: This term sheet is strictly confidential and may not be shared with anyone else other than the owners of Borrower and Texas Department of Housing and Communty Affairs.

<u>Construction Loan</u>

Construction Loan Amount: Based on our general underwriting parameters for what we believe to be similar transactions, the construction loan amount in this transaction would be the lesser of:

1) $4,900,000
2) 40% LTC based on final Bank approved construction budget or
3) 80% LTV based on an appraisal in form and substance acceptable to the Bank.

Construction Interest Rate: Daily Floating 1-month BBA LIBOR + 350 bps. The all-in rate as of the date of this letter would be 3.995%.

An interest rate protection product from a financial provider acceptable to the Bank may be required prior to funding of a loan.

Construction Loan Term: 24 months from the loan closing.

Construction Loan Amortization: Interest only for 24 months.

Commitment Fee: 1.25% of the total Loan Commitment, payable at closing.

Construction Renewal Options: One, six-month extension option subject to the following:

a) no less than 30 but no more than 90 day written notice of intention to exercise the option,
b) lien-free construction completion and final C/O of the Project,
c) no event of default having occurred or potential default occurring,

d) no material adverse change in the financial condition of the Project, Borrower, and Guarantor, and,
e) payment of .50% renewal fee based on the then outstanding loan balance.
f) extension of take-out commitment.

Payment and Performance Guaranty: 100 % guarantee of completion, performance and repayment to be provided by Franklin Development Properties, Ltd. and Aubra Franklin. For borrowers that are single-asset entities, principal(s) with general liability or guarantor(s) acceptable to the Bank must be jointly and severally liable for completion of the project and repayment of the financing, including interest and costs.

Collateral:

1) First Lien Deed of Trust on land and improvements constructed thereon.
2) UCC filing on furniture, fixtures and equipment.
3) Assignment of rents/leases and management/construction/architectural contracts, etc.
4) Assignment of interest rate hedge agreement, if any.

General Contractor: Entity to be named. It is understood that the GC will be an affiliate entity of San Antonio Housing Authority and the sub-GC will be Franklin Construction, Ltd. or an entity owned by Aubra Franklin. Minimum of 5% hard cost contingency shall be budgeted.

Fees and Expenses: Borrower will pay all reasonable costs incurred by the Bank in connection with the loans including, but not limited to, legal, environmental, front end costs and document review/inspections, physical needs assessment (for existing projects only) and appraisal.

Material Adverse Change: Bank of America's obligations hereunder shall terminate if, prior to closing, Bank of America determines, in its sole judgment, that there shall exist any conditions regarding the property, or the operations, business, assets, liabilities or condition (financial or otherwise, including credit rating) of Borrower or Guarantor, or there shall have occurred a material adverse change in, or there shall exist any material adverse conditions in, the market for syndicated bank credit facilities or the financial, banking, credit or debt capital markets generally, that could be expected to cause the loan to become delinquent or prevent any guarantor from performing its obligations under any guaranty or to materially and adversely affect the value or marketability of the loan or the property or Bank of America's ability to syndicate the loan.

Assumptions made: The terms discussed herein are presented, based on the credit conditions in the potential transaction as known by Bank of America. Should additional facts come to light that positively or negatively impact the situation, prices or other requirements quoted here may be adjusted.

Expiration: This term sheet will expire at 5:00 p.m. central time on that date which is ten (10) business days from the date hereof unless you execute this term sheet and return it to us prior to that time, which may be by facsimile transmission. Please understand that this term sheet does not represent an offer or commitment by Bank of America, or any of its affiliated entities, for the proposed new financing, nor does it define all of the terms and conditions of a loan commitment, but is a framework upon which a loan request may be submitted. Issuance of a commitment by Bank of America is subject to, among other things, the approval of your loan request under the Bank's approval process. If Bank of America issues a financing commitment in this transaction, it will in all respects supersede this letter.

Please review the above terms and conditions and feel free to call me with any questions or comments you may have. If you find the above terms and conditions to be acceptable, please indicate so by signing below and returning a faxed copy to my attention by April 15, 2009 along with a good-faith deposit of $10,000. Upon receipt of the letter and the good-faith deposit, the Bank will proceed with the necessary due diligence to prepare and submit your loan request, provided, however that in any event, this term sheet will finally expire at 5:00 p.m. central time on that date which is sixty (60) days from the date hereof. Your deposit is refundable, less the Bank's out of pocket expenses incurred, should the Bank decline the financing opportunity discussed herein. I look forward to hearing from you and working with you on this and other transactions.

Sincerely,

Bank of America, N. A.

Cassandra Silvernail

Cassandra Silvernail
Senior Vice President
Bank of America
700 Louisiana, 5th Floor
Mail Code TX4-213-05-15
Houston, Texas 77002
713.247.6645 direct
214.416.0710 RightFax

Please submit a loan application as outlined above:

Name: ______________________
Title: ______________________
Date: ______________________

Bank of America

Community Development Banking
1755 Grant Street, 1st Floor
Concord, CA 94520
CA4-703-01-29

Todd McCain
Vice President
P 925.692.6863 F 925.675.1949
Todd.mccain@bankofamerica.com

February 23, 2009

Aubra Franklin
Franklin Development
21260 Gathering Oaks, Suite 101
San Antonio, TX 78258

Re: Equity Letter of Intent
Sutton Homes (the "Project")

Dear Mr. Franklin:

This letter expresses the interest of Bank of America, N.A., and, or, its affiliates ("Investor") in making an equity investment in a partnership for purposes of developing and owning the Sutton Homes low income families project (the "Project"). This letter is intended to describe the terms and conditions of Investor's proposed equity investment.

1. Project. The Project consists of the construction of 194 affordable housing units for low income families located at Hines Avenue and IH35 in San Antonio, Texas 78208. The project will have approximately 330 parking spaces.

2. Tax Credits. The Partnership has received a reservation of 2008 federal low-income housing 9% tax credits (the "Projected Federal Credits") totaling $1,450,000 per annum from the Texas Department of Housing and Community Affairs (the "Credit Agency").

3. Partnership. The Project will be owned and operated by ARDC Sutton, Ltd., a Texas limited partnership (for purposes of this letter the "Partnership"). The Partnership will be comprised of the following entities, which will possess ownership interests (collectively the "Percentage Interests", and as to any one party the "Percentage Interest") as detailed below:

- General Partner: (.01%) 252 Sutton GP, LLC, a Texas limited liability company.
- Investor Limited Partner: (99.98%) Bank of America, N.A, or its affiliate.
- Special Limited Partner: (0.01%) Banc of America CDC Special Holding Company, Inc.

4. Project Financing. Financing will be provided to the Partnership as follows (the "Loans"):

   A. Construction Loan. A construction loan in the amount as reflected in Bank of America's Debt Term Sheet (the "Construction Loan") will be provided by Bank of America.

   B. Permanent Loans. The following permanent loans (the "Permanent Loans") are expected to be made to the Partnership:

      (1) First Mortgage Loan. A permanent loan in the amount equal to the lesser of the amount reflected in Bank of America's Debt Term Sheet or an amount as approved by the Bank's Tax Credit Equity Group.

      (2) Funds of $5,461,000. Funds in the amount of $5,641,000 will be provided to the Partnership during construction. The structure and terms of this financing is TBD.

      (3) Seller Financing. The Housing Authority of the City of San Antonio will provide a Land Loan in the amount of $1,200,000. The Loan will bear interest at the AFR and have a term of 30 years.

   The terms and conditions of all loans to the Partnership will be subject to Investor's approval. Such loans will (i) expressly permit the admission of Investor into the Partnership and the potential transfers of the partnership interests by Investor and Special Limited Partner without consent of the maker of the loan provided that such transfers are permitted under the Partnership Agreement, and (ii) will provide Investor with notices of default and cure rights acceptable to Investor. All Permanent Loans will be non-recourse.

   This equity offer is conditional upon Bank of America providing a construction loan to the Partnership. All must-pay debt must have a combined debt service coverage ratio of at least 1.15. Any change in the amount or terms of the project financing may result a change in the Investor's Credit Price or a withdrawal of this offer. The terms of all Project Financing will be subject to the approval of tax counsel and the Investor.

5. Other Parties.

   A. Developer: Franklin Development Partners Ltd, a Texas limited partnership and San Antonio Housing Facility Corporation, as Co-Developers..

B. Guarantor: Franklin Development, Ltd, a Texas limited partnership plus Aubra Franklin, jointly and severally.

C. General Contractor. Franklin Construction, Ltd., under a Guaranteed Maximum Price Contract with all subcontractors with contracts in excess of $250,000 providing Payment and Performance bonding. The General Contractor is affiliated with Developer, Guarantor, Property Manager, or General Partner.

D. Partnership Accountant: Novogradac & Company, LLC.

E. Investor Counsel: Sidley Austin – David Hill

The qualifications and financial condition of each of the foregoing parties must be acceptable to Investor.

6. Capital Contributions. Investor will make a total Capital Contribution equal to $0.725 for each $1.00 of Federal Tax Credits to which it will be entitled as the Investor Limited Partner. **Please note that we will reevaluate our pricing 60 days prior to closing, which is anticipated June 1, 2009, and our pricing will reflect the Bank's yield and shareholder requirements at that time.** Based on the Projected Credits for the Partnership this would amount to a total Capital Contribution of $10,511,449 (the "Total Capital Contribution"). The Total Capital Contribution will be paid as follows:

A. Initial Capital Contribution. $2,627,862 upon admission of the Investor into the Partnership, after satisfaction of the following pre-conditions: (i) closing of the Partnership, (ii) closing and initial funding of all construction financing for the Project, (iii) receipt of commitments for all permanent financing on the Project with the interest rate fixed for at least 15 years, (iv) evidence of either acquisition of, or a leasehold interest in, the land and building for the Project, (v) evidence the Partnership has received an allocation from the Credit Agency of 9% credits in an amount equal to the Projected Credits, (vi) receipt by the Investor of a tax opinion prepared by tax counsel for the Partnership in a form which is acceptable to the Investor, and (vii) satisfactory completion of Investor's due diligence. This equity installment is anticipated to occur May 7, 2009.

B. 50% Construction Capital Contribution. $2,102,290 shall be payable when, among other conditions, the Investor has received and approved (i) the Bank's Construction Consultant's report evidencing 50% completion of the property, and (ii) achievement of all prior Capital Contribution requirements. This equity installment will be paid in no earlier than December 1, 2009.

C. 75% Construction Capital Contribution. $2,627,862 shall be payable when, among other conditions, the Investor has received and approved (i) the Bank's Construction Consultant's report evidencing 75% completion of the property, and (ii) achievement of all prior Capital Contribution requirements. This equity installment will be paid in no earlier than March 1, 2010.

D. Completion Capital Contribution. $2,102,290 will be payable when, among other things, the Investor has received and approved (i) the Bank's Construction Consultant's report evidencing 100% completion of the property, (ii) temporary certificates of occupancy have been issued for each building, and (iii) an endorsement to the Partnership's title policy evidencing no mechanics or materialmen's liens. This equity installment will be paid in no earlier than June 1, 2010.

E. Conversion Capital Contribution. $525,572 will be payable when, among other things, the Investor has received and approved (i) the Project then has achieved at least three consecutive calendar months of a minimum of 1.15 to 1 debt service coverage on the Permanent Loans (which period must include the last day of the most recent calendar month ending prior to the date of the Conversion Capital Contribution), (ii) the Project is then at least 90% occupied, (iii) all tax credit units have been leased to qualified tenants at least one time, (iv) all Permanent Loans have closed and funded, or will close and fund concurrent with this Conversion Capital Contribution, (v) permanent certificates of occupancy have been issued for each building, (vi) an ALTA survey of the improvements has been provided, (vii) a cost certification by a qualified accountant has been received in a form acceptable to Investor, and (viii) all reserves have funded or will fund concurrent with this payment. This equity installment will be paid in no earlier than September 1, 2011.

F. Final Capital Contribution. The balance of the unpaid Total Capital Contribution, $525,574 will be payable when, among other things, the Investor has received and approved (i) the Credit Agency has issued a Form 8609 for each building, (ii) a copy of the recorded Extended Use Agreement has been received, (iii) a copy of the compliance audit of the initial tenant files has been received, and (iv) calculations of final adjusters have been prepared and agreed to. This equity installment will be paid in no earlier than December 1, 2011.

7. General Partner and Guarantor Obligations.

A. Completion and Development Deficit Guaranty. General Partner and Guarantor will guarantee lien-free completion of the Project in a good and workmanlike manner substantially in accordance with plans and specifications as approved by Investor on or before December 31, 2010 (the "Completion Date"). General Partner and Guarantor will guaranty payment of all development costs, including all costs of achieving such lien-free completion, including all soft costs and construction period interest. Further, under this guaranty, General Partner and Guarantor will guaranty payment of all operating costs through the later of the date (i) the Project has achieved 90% occupancy for three consecutive calendar months, (ii) the Project is 100% complete, (iii) all tax credit units have been leased to qualified tenants at least one time, and (iv) all Permanent Loans have closed and funded. Payments made under this guaranty will not constitute loans to the Partnership and neither General Partner nor any Guarantor will have any right to receive any repayment on account of such payments.

B. <u>Operating Deficit Guaranty</u>. General Partner and Guarantor will agree to loan to the Partnership any amounts required to fund operating deficits arising after the expiration of the Completion and Development Deficit Guaranty up to the greater of 6 months of operating expenses plus debt service or $650,000 (the "Operating Deficit Loan Maximum"). Any amounts so advanced will constitute interest-free loans ("Operating Loans") repayable only out of future available cash flow or out of available proceeds of a sale or refinancing. The Operating Deficit Guaranty will terminate 60 months after the later of (i) the expiration of the Completion and Development Deficit Guaranty, or (ii) the Project's achievement of an average 1.15 to 1 debt service coverage on the Permanent Loans calculated over a period of 12 consecutive months.

C. <u>Repurchase</u>. General Partner and Guarantor will be required to repurchase the Investor's interest upon certain material events including but not limited to: failure to achieve completion by December 31, 2010, failure to achieve stabilization within 24 months of completion, or failure to place the Project in service prior to the date required by the Internal Revenue Code or loss of permanent financing commitments. The General Partner and Guarantors will repurchase the Investor's interest in the Partnership at a price equal to the Investor's Capital Contributions paid to date, plus the actual out of pocket costs to the Investor (including legal, accounting, and consulting) plus 10% interest per annum, less any net tax credits received and retained by the Investor.

D. <u>Tax Credits Guaranty and Indemnification</u>. General Partner and Guarantors will indemnify Investor for the failure to achieve projected tax benefits. Should the actual tax credits be lower than the Projected Tax credits, Investor's capital contributions will be adjusted downward by the amount of the difference and any interest or penalties owed by Investor. Subsequent to the payment of Investor Capital Contributions, Managing Member and/or Guarantors will, within 75 days of the end of each calendar year, pay to Investor an amount equal to the difference in actual tax credits plus any interest or penalties owed by Investor.

E. <u>Adjuster Provisions</u>. The Capital Contributions are based upon your projection of total federal Low-Income Housing Tax Credits of $ 14,498,550 ("Original Projected Credit") to Investor, which in turn is based upon certain assumptions and projections. The following federal credits are to be delivered to the Investor: $281,916 in Year 2010, $1,449,855 in Year 2011 and through 2019, and $1,167,939 in Year 2020. The actual amount of Low-Income Housing Tax Credits may in fact change after the determination of eligible and qualified basis. Accordingly, the Capital Contribution may be adjusted when (i) final projections of the amount of Low-Income Housing Tax Credits are completed and/or (ii) upon or after actual completion of the project. Upon satisfaction of all conditions and prior to payment of the Final Capital Contribution, the Partnership Accountant will provide the Investor with Revised Economic Projections and the Final Credit Amount determined by the Accountants.

Credit Adjuster. To the extent such final projected amount of Low-Income Housing Tax Credits varies from the Original Projected Credits, Investor's capital contribution will be adjusted by $0.725 per federal credit on such variance in the delivery of actual credits to Original Project Credit (as reflected in cost certifications or Form 8609). In no event will the application of the above adjusters cause Investor's capital contribution to increase by more than 5% without approval from Investor's Investment Committee.

Timing Adjuster. Investor's federal credit capital contribution will be adjusted to reflect the later or earlier than projected delivery of federal credits with respect to the first year and, if applicable, the second year, of the credit period, based on a reduction in price of 65 cents for every federal credit dollar deferred, or an increase based on 65% of the price per credit established in Section 6 above for every federal credit dollar accelerated.

If due to such adjusters, Investor's capital contributions are to be adjusted downward by more than the amount of Investor's then unpaid capital contributions, then General Partner and Guarantor will guaranty payment of the shortfall in such adjustments.

The General Partner's and Guarantor's obligations will be more specifically set forth in the Partnership Agreement and other related documents.

8. Allocation of Tax Credits, Depreciation, Profits and Losses. The Tax Credits, depreciation, operating profits and losses will be allocated in accordance with the Percentage Interests.

9. Distribution of Cash Flow.

A. Operating Cash Flow. Operating cash flow will be utilized as follows: (i) payment of all must-pay debt service on the Permanent Loans and other operating expenses, (ii) additions to a funded capital replacement reserve as provided in the Partnership Agreement, (iii) payment of any tax credit recapture owed to the Investor (iv) payment of any tax associated with taxable income to the Investor (v) payment of any loan made by the limited partner to the Partnership (vi) payment of the Asset Management Fee of $5,000 per year to the Investor, which fee will accrue if not paid, (vii) payment of the Developer Fee Note, (viii) repayment of any Operating Deficit Loans made by General Partner, (ix) payment of the GP Asset Management Fee of $5,000 (split evenly between the General Partner and Franklin Family Investments Ltd.) which fee shall accrue if not paid, (x) up to 90% of cash flow will be applied to pay the Seller Financing (loan from affiliate of GP) (xi) payment of the Partnership Management Fee equal to the lesser of 90% of cash flow or $80,000 to the General Partner, and (xii) then to the partners in accordance with the Percentage Interests.

B. Sale or Refinancing Proceeds. Distributions of proceeds from a sale or refinancing of the Project will be distributed as follows: (i) payment of all must pay debt service on the Permanent Loans and other operating expenses, (ii) payment of any tax credit recapture owed to the Investor, (iii) payment of any Investor taxes due at sale, (iv) payment of any loan made by the limited partner to the Partnership (v) to the extent reasonably determined necessary by General Partner additions to a capital replacement reserve, (vi) payment of any unpaid accrued Asset Management Fee, (vii) payment of the Developer Fee Note, (viii) repayment of any Operating Deficit Loans made by General Partner, (ix) payment of any unpaid accrued GP Asset Management Fee, (x) to any amounts due on the Land Loan (xi) 90% to the General Partner, and (xii) then to the partners in accordance with the Percentage Interests.

10. Developer Fee. The Developer will earn a Developer Fee, projected to be $2,400,000, with no more than 50% of the non deferred developer fee paid during construction. In the event that the amount of the Final Capital Contribution is insufficient to pay the remaining balance of the Developer Fee, such unpaid portion will be deferred (the "Deferred Developer Fee") and will be payable not later than 12 years after the date the Project is placed in service.

11. Property Manager. United Apartment Group, Inc. will be the Project's initial property manager. The Property Manager will earn a fee equal to 4.00% of the Project's gross collected rents. If the Property Manager is an affiliate of General Partner, Guarantor, or Developer, then a portion of the property management fees may be deferred to cover operating deficits. The Property Manager may be terminated as Property Manager in the event of the removal of General Partner.

12. Replacement Reserves, ACC Reserves, Operating Reserves and Lease-Up Reserves. A Replacement Reserve equal to the greater of $250 per unit per annum, or amounts required by any Project lender, will be funded from cash flow into a reserve account. ACC Reserve will be funded in the amount of $150,000 at the time of the Initial Capital Contribution. An Operating Reserve of $273,307 will be capitalized prior to or concurrent with the Completion Installment. Lease Up Reserves in the amount of $268,104 will be funded into a reserve at the time of, or prior to, funding of the Completion Capital Contribution. Amounts remaining in the Lease Up Reserve, following funding of the Conversion Capital Contribution, may be released into the Cash Flow waterfall or used to fund Operating Deficits.

13. Investor Review. As set forth in the Partnership Agreement, Investor will have the right to inspect the Project during and after construction and to review construction loan disbursement requests and other financial and operations matters of the Project and the Partnership.

14. Reporting. The Partnership will be required to prepare quarterly and annual reports in form and substance satisfactory to Investor as set forth in the Partnership Agreement.

15. Additional Partnership Agreement Terms. The Partnership Agreement will provide for customary covenants, rights to approve major Partnership matters, representations and

warranties, defaults, remedies, and indemnities to be more fully described in the Partnership Agreement. The Partnership will carry insurance acceptable to Investor.

16. Transfer of Investor Interest. Investor will have the right to transfer its interest in the Partnership, and to have the transferee admitted as a substitute limited partner: (i) to any affiliate of Investor, (ii) to any other person or entity provided that (A) Investor will remain liable to make all capital contributions outstanding at the time of the transfer or (B) the net worth of the proposed transferee will be acceptable to General Partner in its reasonable discretion, or (iii) to a partnership or limited liability company in which the Investor is the general partner or managing member.

17. Transfer of General Partner Interest. General Partner will not sell, transfer, assign, pledge or encumber any portion of its interest in the Partnership without the prior written consent of Investor.

18. Bank Accounts. At least one bank account of the Partnership must be maintained with Investor for the full duration of the Partnership.

19. Conditions to Closing. Investor's investment in the Partnership in accordance with this letter is subject to the satisfaction of the following conditions precedent on or before the Closing Date, which will occur on or before June 1, 2009.

   A. Due Diligence. Investor's satisfactory due diligence review, in its sole and absolute discretion, of all matters pertaining to the Partnership, the General Partner, the Guarantor, the Developer and the Project including, without limitation:

      (1) the construction budget, the scope of work, the construction schedule, all required permits, the construction contract, and all other construction and development matters;

      (2) title, survey, zoning, engineering and environmental matters;

      (3) any ground lease;

      (4) market studies, appraisals, and all other matters regarding project feasibility;

      (5) all aspects of the project's capital structure: the terms of all loans, grants, tax increment financing and equity contributions;

      (6) debt service coverage, reserves, rental subsidies, income, expenses, and all other assumptions underlying the Projections;

      (7) tax matters, including all aspects of all tax-exempt bonds;

      (8) government benefits, government consents, government requirements and all other regulatory aspects of the Project;

(9) all formation documents and government filings of the Partnership, the General Partner and the Developer; and

(10) the financial condition of the General Partner and the Developer.

B. Negotiation of Satisfactory Documentation. The negotiation of a final Partnership Agreement and related documents (collectively the "Project Documents") that are satisfactory to Investor in its sole and absolute discretion. Investor's attorney will prepare and send to General Partner and its attorney the form of the Project Documents.

C. Opinions. Investor's receipt of corporate rendered by counsel to General Partner satisfactory to Investor, in form and substance acceptable to Investor. Investor's receipt of tax opinion rendered by counsel to Investor, at the expense of the General Partner, in form and substance acceptable to Investor.

D. Consents. Receipt of all necessary consents of governmental authorities and lenders.

E. Title Insurance. Receipt of a title insurance policy in an amount and in a form acceptable to Investor, provided the amount of such title insurance must be at least equal to the aggregate of the Total Capital Contribution plus all Permanent Loans.

F. Survey Certification & Additional Insured. Certify the Survey to, and add as an Additional Insured, "Bank of America, N.A. and its successors and assigns as lender to and limited partner in ARDC Sutton, Ltd., a Texas limited partnership."

G. Miscellaneous. Receipt of other items or information reasonably required by Investor.

20. Transaction Expenses. The Investor will reimburse the Partnership for all of the Investor's transaction expenses including its legal, market analysis, and accounting fees. This reimbursement will be made in the form of a capital contribution from the Investor, which is separate from and in addition to the Capital Contribution in paragraph 6. If the Partnership fails to close, the entity signing this letter on behalf of the General Partner will be responsible for reimbursing the Investor for all the Investor's transaction expenses.

21. Termination. If the transaction contemplated by this letter fails to close by the Closing Date, as extended by the parties, this letter will be null and void and of no further force and effect, and, neither party will have any claim or demand whatsoever against the other party in connection with this letter, its execution or termination, except the Investor's transaction expenses identified above.

22. Right of First Refusal. At the end of the 15 year tax credit compliance period, SAHA will have the right of first refusal for one year to purchase the Property for an amount

equal to outstanding debt plus Investors taxes payable as a result of the sale. The General Partner will have the option, following the date all tax credits have been received by the Investor, 1) to purchase the property for an amount equal to the greater of (a) fair market value of the property or (b) outstanding debt plus Investor's taxes payable as a result of the sale, assuming the posting of an IRS Bond and the provision of a Letter of Credit to support potential recapture resulting from the sale.

23. Tax Disclosure. Notwithstanding anything to the contrary contained in the Partnership Agreement or any other agreement between the parties hereto, or in any offering materials pertaining to the Project, Investor and each officer, employee, representative or agent of Investor may disclose to any and all persons, without limitation of any kind, (i) the tax treatment and tax structure of the Partnership and any of the Partnership's transactions or activities, and (ii) all materials of any kind (including opinions and tax analysis) that are provided to Investor regarding its investment in the Partnership and/or such transactions or activities of the Partnership. This authorization as to tax disclosure is effective retroactively to the commencement of any discussions between the parties hereto or any of their agents or representatives.

24. Material Adverse Change: Bank of America 's obligations hereunder shall terminate if, prior to closing, Bank of America determines, in its sole judgment, that there shall exist any conditions regarding the Property, or the operations, business, assets, liabilities or condition (financial or otherwise, including credit rating) of Borrower, Guarantor, or any tenants or there shall have occurred a material adverse change in, or there shall exist any material adverse conditions in, the market for syndicated bank facilities or the financial, banking, credit or debt capital markets generally, that could be expected to cause the potential Investment to go into default or prevent any guarantor from performing its obligations under any guaranty or to materially and adversely affect the value or marketability of the Investment or the Property.

25. Expiration: This Letter of Intent will expire at 5:00 p.m. on that date which is five (5) business days from the date hereof unless you execute this LOI and return it to us prior to that time, which may be by facsimile transmission. This letter is not intended as a commitment or offer by Investor to invest in the Partnership or the Project, but is intended only to summarize for discussion purposes the equity investment it is considering at this time. Investor must obtain the approval of its Investment Committee with respect to any such investment. After receipt of your signature on this LOI and after you provide any additional information that may be required, we will proceed with the necessary due diligence to process your request for Investment Committee Approval; provided, however that in any event, if this investment is not closed within sixty (60) days from the date hereof this LOI will expire.

Please indicate your agreement and acceptance of the foregoing by signing the enclosed copy of this letter and returning it to the undersigned. We look forward to working with you on this transaction.

Bank of America, N.A.

Todd McCain

By:
Name: Todd McCain
Title: Vice President
Date: February 23, 2009

Agreed and Accepted:

____

By:
Name: Aubra Franklin
Title: President
Company: Franklin Development
Date: ______________________

By: ______________________
Name: General Alfred A. Valenzuela
Title: Secretary/Treasurer
Company: San Antonio Housing Facility Corporation
Date: ______________________

Sutton Homes
February 23, 2009

Bank of America, N.A.

Todd McCain

By:
Name: Todd McCain
Title: Vice President
Date: February 23, 2009

Agreed and Accepted:

____

By:
Name: Aubra Franklin
Title: President
Company: Franklin Development
Date: 2/23/09

By:
Name:
Title:
Company: San Antonio Housing Facility Corporation
Date: ______________________________

08190
Sutton Homes
Underwriting Report

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
Real Estate Analysis Division
Underwriting Report

REPORT DATE: 03/26/09 PROGRAM: HTC 9% FILE NUMBER: **08190**

DEVELOPMENT

Sutton Homes

Location: 909 Runnels Region: 9

City: San Antonio County: Bexar Zip: 78208 [X] QCT [ ] DDA

Key Attributes: Multifamily, Family, Urban/Exurban, Reconstruction

ALLOCATION

	REQUEST			**RECOMMENDATION***		
TDHCA Program	Amount	Interest	Amort/Term	**Amount**	**Interest**	**Amort/Term**
Housing Tax Credit (Annual)	$1,200,000			**$1,417,486**		

* The recommended tax credit allocation incorporates the November 13, 2008 TDHCA Board approval to use the 9% credit rate and a 10% increase in direct and sitework construction costs for all competitive 2007 and 2008 transactions as well as all applications on the 2008 waiting list to be considered for a forward commitment.

CONDITIONS

1 Receipt, review, and acceptance, by carryover, of firm commitments from SAHA for the second and third lien notes, with all terms and conditions clearly defined.

2 Receipt, review, and acceptance, by carryover, of an attorney's opinion determining that the Replacement Housing Factor Funds loan can and should be considered to be a valid debt with the reasonable expectation that it will be repaid in full.

3 Receipt, review and acceptance of evidence that the asbestos affected materials have been removed or receipt, review and acceptance of an Operation & Maintenance plan prepared by a qualified firm is a condition of this report. It is required that any removal of asbestos-containing materials associated with the structure be conducted by trained and licensed asbestos abatement personnel working under the requirements of the TDSHS Texas Asbestos Health Protection Rules.

4 Receipt, review, and acceptance, by carryover, of the results of further noise evaluation to identify measures that can be taken to mitigate the effects of excessive noise, resulting in an acceptable noise environment for the development, and evidence that such measures have been incorporated into the development plans and are being followed.

5 Receipt, review and acceptance of a zoning change from the City of San Antonio Development Services Zoning approving a zoning change to MR-33 EP-1.

6 Receipt, review and acceptance by cost certification of an executed ground lease with clear lease terms including, but not limited to the annual rent amount.

7 Should the terms and rates of the proposed debt or syndication change, the transaction should be re-evaluated and an adjustment to the credit and or allocation amount may be warranted.

SALIENT ISSUES

TDHCA SET-ÁSIDES for LURA		
Income Limit	Rent Limit	Number of Units
Public Housing	30% of AMI	39
30% of AMI	30% of AMI	10
50% of AMI	50% of AMI	28
60% of AMI	60% of AMI	109

PROS

- The proposed reconstruction would continue the revitalization of an existing significantly deteriorated circa 1951 public housing development.

CONS

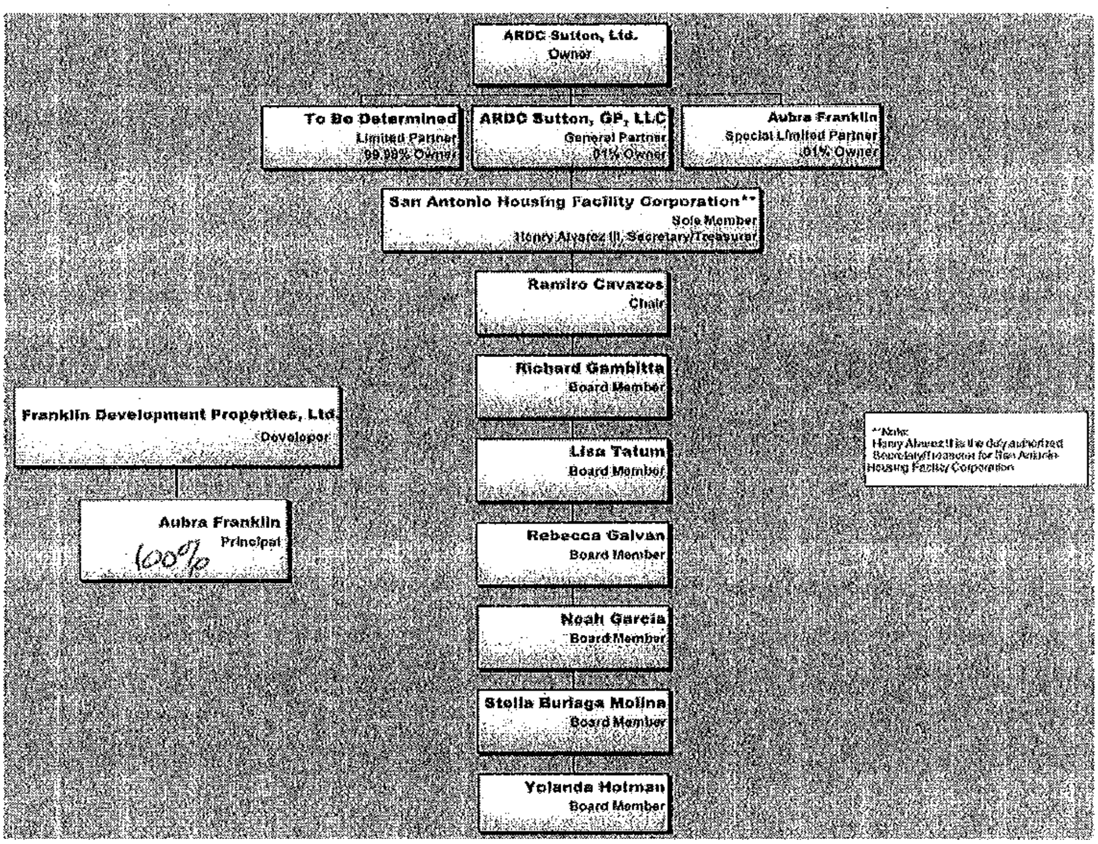
- The Applicant proposes $5.4 million in soft secondary financing, and at the stated interest rate there does not appear to be sufficient cash flow to repay the debt.

PREVIOUS UNDERWRITING REPORTS

None

DEVELOPMENT TEAM

OWNERSHIP STRUCTURE



CONTACT

Contact: Ryan Wilson | Phone: (210) 694-2223 | Fax: (210) 694-2225
Email: ryan@franklindevelopment.net

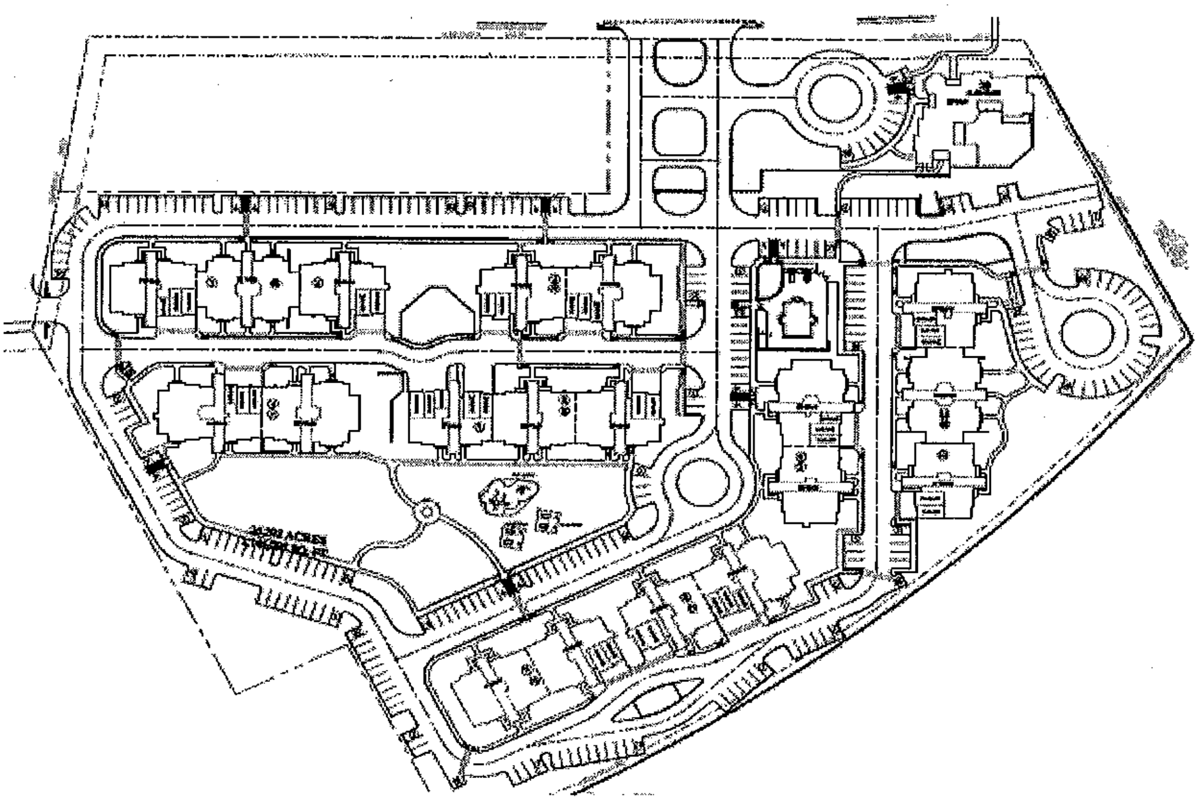
KEY PARTICIPANTS		
Name	Financial Notes	# Completed Developments
San Antonio Housing Facility Corp.	N/A	--
Aubra L. Franklin	N/A	8

IDENTITIES of INTEREST

- The Applicant and Developer are related entities. These are common relationships for HTC-funded developments.
- The seller is a related party. The transfer price is less than both the appraised value of the land plus demolition costs. Moreover the seller is providing additional separate favorable financing in an amount greater than the transfer price.

PROPOSED SITE

SITE PLAN



BUILDING CONFIGURATION

Income: Number of Revisions: 2 Date of Last Applicant Revision: 3/11/2009

Building Type	I	II	III	IV	V	VI					Total Buildings
Floors/Stories	2	3	3	3	3	3					
Number	1	1	2	2	1	1					8

BR/BA	SF	Units per Building										Total Units	Total SF
1/1	750	4	16	7	5		11					55	41,250
2/2	985	7	17	11	11	11	12					91	89,635
3/2	1,161	4		12	6	4						44	51,084
4/2	1,250					4						4	5,000
Units per Building		15	33	30	22	19	23					**194**	**186,969**

Comments:

The most recently provided site plan indicates only 194 open parking spaces, or one per unit. The plan also includes 80 covered carport spaces and 35 garages, but these additional spaces are available only for an additional fee. Department rules do not include a minimum ratio of no-charge parking per unit; however, limiting free parking to one space per unit for a family development does not appear to be sufficient.

Relocation Plan:

The land for Sutton Homes will be sold to ARDC Sutton, Ltd. once the San Antonio Housing Authority (SAHA) has relocated the tenants. At present there are a total of 242 existing units at Sutton Homes. 191 are occupied, 28 vacant, and 23 off the rent rolls. When the revitalized development is ready for lease up there will be 186 low income units available and 8 market rate units.

SAHA is responsible for relocation of the current residents. Residents will be informed of what options and assistance will be available to them in order to seek other housing, such as: Housing Choice Vouchers, transfers to other available Public Housing Units, amount of relocation benefits, relocation counseling services provided to each individual family, and transportation that may be required for any family. The SAHA intends to fully comply with 49 CFR Part 24, Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970, as amended.

SITE ISSUES

Total Size: 13 acres — Scattered site? ☐ Yes ☒ No

Flood Zone: X — Within 100-yr floodplain? ☐ Yes ☒ No

Zoning: MF-33, I1, I2 — Needs to be re-zoned? ☒ Yes ☐ No ☐ N/A

Comments:

A zoning change from the City of San Antonio Development Services Zoning approving a zoning change to MR-33 EP-1 is a condition of this report.

TDHCA SITE INSPECTION

Inspector: Manufactured Housing Staff — Date: 5/7/2008

Overall Assessment:

☐ Excellent ☐ Acceptable ☒ Questionable ☐ Poor ☐ Unacceptable

Surrounding Uses:

North: Single Family homes and IH 35 northbound access road beyond

South: Vacant land and Single Family homes beyond

East: Industrial businesses

West: Single Family homes

Comments:

The inspector had reservations regarding the development due to the age and the visible repairs that are needed.

HIGHLIGHTS of ENVIRONMENTAL REPORTS

Provider: Integrated Testing and Engineering Company of San Antonio Date: 3/7/2008

Recognized Environmental Concerns (RECs) and Other Concerns:

- "A limited asbestos survey was performed on the Sutton Homes buildings in July 1992 by others. According to the report provided by SAHA, non-friable asbestos was found in floor tile, transite concrete pipe and roof soffets. According to SAHA personnel, the asbestos located within the buildings has not been removed. According to the initial report, "all locations of friable and non-friable ACBM were not inspected". Therefore, the asbestos survey was not a complete survey which would have included all buildings located on the property. No information was found indicating that any of the identified ACBM was removed." (p. 16) Therefore, receipt, review and acceptance of evidence that the asbestos affected materials have been removed or receipt, review and acceptance of an Operation & Maintenance plan prepared by a qualified firm is a condition of this report. It is required that any removal of asbestos-containing materials associated with the structure be conducted by trained and licensed asbestos abatement personnel working under the requirements of the TDSHS Texas Asbestos Health Protection Rules.
- "Based on calculations from the HUD Noise Assessment Worksheet (dated March 2008), Final Site Evaluation is unacceptable." (p. 14) Therefore, any recommended funding will be subject to receipt, review, and acceptance, by carryover, of the results of further noise evaluation to identify measures that can be taken to mitigate the effects of excessive noise resulting in an acceptable noise environment for the development, and evidence that such measures have been incorporated into the development plans and are being followed.

Comments:

"A review of Environmental databases did not reveal any facilities within the specified search areas that are suspected to represent an environmental concern to the Target Property." (p.16)

MARKET HIGHLIGHTS

Provider: Land America Valuation Corporation Date: 3/2/2008

Contact: B. Diane Butler Phone: (214) 739-0700 Fax: (214) 361-8168

Number of Revisions: None Date of Last Applicant Revision: N/A

Primary Market Area (PMA): 40.35 square miles / (3.6 miles radius)

"The primary market area is defined as the area east of IH 37 and Broadway Street; south of Rittiman Road; west of North Forester Road; and north of SH 87 and IH 10." (p. 40)

Secondary Market Area (SMA):

"The secondary market is defined as the San Antonio MSA." (p. 40)

PROPOSED, UNDER CONSTRUCTION & UNSTABILIZED COMPARABLE DEVELOPMENTS				
PMA				SMA
Name	File #	Total Units	Comp Units	N/A
Artisan at Salado Heights	060417	252	246	

INCOME LIMITS						
Bexar						
% AMI	1 Person	2 Persons	3 Persons	4 Persons	5 Persons	6 Persons
30	$11,500	$13,100	$14,750	$16,400	$17,700	$19,000
50	$19,150	$21,900	$24,600	$27,350	$29,550	$31,750
60	$22,980	$26,280	$29,520	$32,820	$35,460	$38,100

MARKET ANALYST'S PMA DEMAND by UNIT TYPE							
Unit Type	Turnover Demand	Growth Demand	Other Demand	Total Demand	Subject Units	Unstabilized Comparable (PMA)	Capture Rate
1 BR/ 30% Rent Limit	669	2	0	671	10	0	1.49%
1 BR/ 60% Rent Limit	688	2	0	690	43	46	12.90%
2 BR/ 30% Rent Limit	275	1	0	276	32	0	11.59%
2 BR/ 50% Rent Limit	471	1	0	472	22	0	4.66%
2 BR/ 60% Rent Limit	537	2	0	539	35	120	28.76%
3 BR/ 30% Rent Limit	413	1	0	414	7	0	1.69%
3 BR/ 50% Rent Limit	663	2	0	665	6	0	0.90%
3 BR/ 60% Rent Limit	775	2	0	777	29	80	14.03%
4 BR/ 60% Rent Limit	1,033	3	0	1,036	2	0	0.19%

OVERALL DEMAND												
			Target Households		Household Size		Income Eligible		Tenure		Demand	
PMA DEMAND from TURNOVER												
Market Analyst	p.	66	100%	30,918	100%	30,918	32%	10,008	40%	3,973	69%	2,722
Underwriter			100%	30,918	97%	29,861	33%	9,778	40%	3,882	46%	1,793
PMA DEMAND from HOUSEHOLD GROWTH												
Market Analyst	p.	66			100%	60	32%	19	40%	8	100%	8
Underwriter					97%	64	33%	21	40%	8	100%	8

INCLUSIVE CAPTURE RATE								
			Subject Units	Unstabilized Comparable (PMA)	Unstabilized Comparable (25% SMA)	Total Supply	Total Demand	Inclusive Capture Rate
Market Analyst	p.	66	145	252	0	397	2,729	15%
Underwriter			147	252	0	399	1,802	22%

The 39 public housing units at the subject will replace the pre-existing public housing that will be demolished, and previous tenants will receive a leasing preference; as Replacement Housing, these units are exempt from the capture rate criteria. The Market Analyst determined an inclusive capture rate of 15% based on total demand for 2,729 units, and unstabilized supply of 397 units (145 HTC units at the subject and 252 units at Artisan at Salado Heights). The Market Analyst applied a turnover rate of 68.5% as reported by IREM for the San Antonio MSA for 2007. The underwriting analysis applied a more conservative turnover rate of 46% derived from the US Census data for Bexar County, and considered the corrected quantity of 147 HTC units at the subject. As a result of the lower turnover rate, the inclusive capture rate is determined to be 22%; this higher result is still within the maximum rate of 25% for urban developments targeting families.

Primary Market Occupancy Rates:

"Vacancy and collection loss was estimated at 6.0%, encumbered........as noted by this higher average occupancy level currently being achieved at the competing HTC properties, there is demand for affordable housing in the immediate area. The comparable communities typically have waiting lists or quickly fill vacant units; this points to continued pent-up demand in the market." (p. 93)

Absorption Projections:

"An absorption rate of 20 units/month, after completion, is reasonable for the subject considering the location with visibility from IH 35. The development will serve the existing residential base in the PMA who desire better housing and new in-migration searching for a close-in location with easy access. The absorption rate will result in a 7-month absorption period from date of completion to obtain stabilized physical occupancy. The subject community should achieve stabilization (encumbered) by July 2010" (p. 79)

RENT ANALYSIS (Tenant-Paid Net Rents)					
Unit Type (% AMI)	Proposed Rent	Program Maximum	Market Rent	Underwriting Rent	Savings Over Market
1 BR 750 SF (30%)PH	$233	$240	$645	$100	$545
1 BR 750 SF (60%)	$532	$548	$645	548	$97
1 BR 750 SF MR	$532		$645	$645	$0
2 BR 985 SF (30%)	$320	$287	$768	287	$481
2 BR 985 SF (30%)PH	$320	$287	$768	$100	$668
2 BR 985 SF (50%)	$519	$534	$768	534	$234
2 BR 985 SF (60%)	$638	$657	$768	$657	$111
2 BR 985 SF MR	$638		$768	768	$0
3 BR 1,161 SF (30%)	$348	$324	$871	$324	$547
3 BR 1,161 SF (30%)PH	$348	$324	$871	100	$771
3 BR 1,161 SF (50%)	$591	$609	$871	$609	$262
3 BR 1,161 SF (60%)	$729	$751	$871	751	$120
3 BR 1,161 SF MR	$729		$871	$871	$0
4 BR 1,250 SF (60%)	$802	$800	$950	800	$150
4 BR 1,250 SF MR	$802		$950	$950	$0

Market Impact:

"The local apartment market continues to balance supply and demand as the significant demand for quality apartment product has resulted in a significant amount of new product to come on line over the last several years. Occupancy levels have remained above 90% over the last several years. Brokers also indicate that San Antonio is currently perceived as a relatively stable apartment market particularly as compared to other large Texas markets such as Dallas and Austin that have experienced a higher degree of overbuilding and job loss. As a result, brokers indicated that investor interest has been strong for well-located quality apartment projects in San Antonio. The overall outlook for the area is positive, barring a significant and prolonged downturn in the local economy and assuming developers maintain an appropriate level of discipline with respect to new development in the midst of an improving market." (p. 38-39)

Comments:

The market study provides sufficient information on which to base a funding recommendation.

OPERATING PROFORMA ANALYSIS

Income: Number of Revisions: 4 Date of Last Applicant Revision: 8/25/2008

Thirty-nine units have been set aside as public housing assisted units. These units are subject to an Annual Contributions Contract with the US Department of HUD. Tenants pay up to 30% of household income toward rent, and HUD provides a subsidy up to the operating expenses for the units. Since there is no minimum qualifying income, and tenants pay a percentage of household income, it is not possible to precisely estimate the amount of tenant-paid rent for the public housing units. The underwriting analysis assumes an arbitrary average of $100 per month in tenant-paid rent for each public housing unit; the analysis also includes an operating subsidy equal to the difference between the tenant-paid rent and the operating expenses for each public housing unit. The Applicant's rent schedule assumes the collected rent for the public housing units will be equivalent to 30% HTC units.

For the remaining tax credit units the Underwriter calculated the current gross program rents less the current utility allowances as maintained by the San Antonio Housing Authority in determining projected gross rental income. The Market Analyst concludes the market could support rents at these rent limit maximums. The subject also includes 8 market rate units; the underwriter has applied market rents for these units as reported in the market study.

In addition to secondary income from normal operation, the Applicant projects income from garages and carports at $3,250 per month. Traditionally, the Department has not accepted carport income and has heavily discounted garage rental income. Given that the Applicant maximized other secondary income and provided no support for garage rental income, the underwriting analysis assumes only the maximum of $15 per unit per month in secondary income from normal operation.

The Applicant has allowed for losses due to vacancy and collection equal to 7.0% of effective gross income; the underwriting analysis has followed the guideline provision of 7.5% losses. Overall, the Applicant's projected effective gross income is equivalent to the Underwriter's estimate.

Expense: Number of Revisions: None Date of Last Applicant Revision: N/A

The Applicant's total annual operating expense projection at $3,326 per unit is within 1% of the Underwriter's estimate of $3,366, derived from the TDHCA database. The Applicant's budget reflects that the compliance fee of $7440 was not considered.

The Applicant is also projecting a 100% property tax exemption as a result of the Public Facility's control of the general partner. It is anticipated that the Applicant will enter into a ground lease with the Public Facility in order to secure such an exemption. Receipt, review and acceptance by cost certification of an executed ground lease with clear lease terms including, but not limited to, the annual rent amount is a condition of this report.

Conclusion:

The Applicant's estimated income, expenses, and net operating income are each within 5% of the Underwriter's estimate. Therefore, the Applicant's NOI will be used to evaluate debt service capacity. Use of the Applicant's proforma and the estimated debt service results in a debt coverage ratio (DCR) of 1.16 which falls within the current underwriting guideline of 1.15 to 1.35.

Feasibility:

The Applicant's projections are used to create a 30-year operating proforma, applying a 3% growth factor to income and 4% to expenses. This analysis, with the financing structure as proposed by the Applicant, indicates substantial positive cash flow and debt coverage that remains above 1.15 throughout the proforma. This generally leads to a conclusion that the development is financially feasible. It should be noted, however, that the primary mortgage is amortized over 40 years; and more importantly, the financing structure includes $5.4 million in soft debt, at 4.5% interest, payable from cash flow. This raises questions about the financial feasibility of the project, which will be discussed further in the Conclusions of this report.

ACQUISITION INFORMATION

APPRAISED VALUE

Provider: Land America Valuation Corporation Date: 3/6/2008

Number of Revisions: None Date of Last Applicant Revision: N/A

Land Only: 13 acres	$1,300,000	As of:	3/6/2008
Existing Buildings: (as-is)	$9,200,000	As of:	3/6/2008
Total Development: (as-is)	$10,500,000	As of:	3/6/2008

Comments:

The seller, Housing Authority of the City of San Antonio, is to cause the existing structures at the property to be demolished and a reconstruction of 194 units with 8 buildings will be constructed.

ASSESSED VALUE

Land Only: 13 acres	Tax Exempt	Tax Year:	2008
Existing Buildings:	Tax Exempt	Valuation by:	Bexar CAD
Total Assessed Value:	Tax Exempt	Tax Rate:	0

EVIDENCE of PROPERTY CONTROL			
Type:	Purchase and Sale Contract	Acreage:	13
Contract Expiration:	1/31/2009	Valid Through Board Date?	[x] Yes [ ] No
Acquisition Cost:	The greater of $800,000 or the fair market value of the land as determined by an appraiser which was determined to be $1,300,000.		
Seller:	San Antonio Housing Authority	Related to Development Team?	[x] Yes [ ] No

CONSTRUCTION COST ESTIMATE EVALUATION

COST SCHEDULE Number of Revisions: 1 Date of Last Applicant Revision: 8/7/2008

Acquisition Value:

The Applicant has an identity of interest with the seller but has provided documentation of the property's original acquisition value (in the form of 155 closing statements dated in late 1951 and early 1952) and an appraised value as required by the QAP. The contracted sales price of $1,300,000 is the same as the appraised value, but the acquisition cost in the Applicant's development cost schedule is shown as $1,200,000. The underwriting analysis will utilize the $1.2M reflected in the Applicant's cost schedule.

As discussed above, it is anticipated that San Antonio Housing Facility Corporation or an affiliate thereof will take title to the land and the Applicant will enter into a ground lease with that entity in order to secure a 100% property tax exemption. The Applicant did not provide a ground lease; however, this report has been conditioned upon receipt of a ground lease with terms from the Applicant.

Sitework Cost:

The Applicant's claimed sitework costs of $7,587 per unit are within current Department guidelines. Therefore, further third party substantiation is not required.

Direct Construction Cost:

The Applicant's direct construction cost estimate is $9.7 million. The underwriting estimate, based on the most recently provided building plans and derived with the Marshall & Swift Residential Cost Handbook, is 9% higher at $10.6 million.

Ineligible Costs:

The Applicant included $51,665 for garages and carports as an eligible cost. This cost is regarded to be ineligible; therefore, the Underwriter reduced the Applicant's eligible basis by an equivalent amount. This cost also appeared to be highly understated, as the original site plan indicated 53 garages. The current site plan indicates 35 garages, 80 carports, and approximately 1,400 square feet of storage unit space. The underwriting estimate of direct construction cost for these items totals $272K; these costs are ineligible since tenants will be charged fees for the use of these facilities, so this amount is included with ineligible costs.

Interim Interest Expense:

The Applicant claimed $613K in eligible interim financing interest. Underwriting guidelines limit eligible interest to one year of fully drawn interest on the construction financing. Based on the commitment from the lender, one year of interest on the primary loan would be $471K; no terms have been provided for the $5.4 million in soft financing to be provided by SAHA. The Applicant's eligible basis estimate has been adjusted to include only $471K in interim interest.

Contingency & Fees:

As a result of the reductions to eligible basis discussed above, the Applicant's eligible contractor fees exceed the Department's maximum by $3,026. Additionally, the Applicant's contingency costs were overstated by $1,312. These amounts have been removed from eligible basis.

Conclusion:

The Applicant's total development cost is within 5% of the Underwriter's estimate; therefore, the Applicant's cost schedule will be used to determine the development's need for permanent funds and to calculate eligible basis. An eligible basis of $19,017,619 is boosted by 30% because the site is located in a Qualified Census Tract; the basis is also reduced by the 95.5% applicable fraction because 8 units will not be subject to rent and income restrictions; the adjusted basis of $23,626,454 supports annual tax credits of $2,126,381 based on the full 9% applicable percentage, as approved by the TDHCA Board on November 13, 2008.

In addition the Board approved an increase in the credit amount for all 2008 transactions based on an additional 10% of direct construction and site work cost as contingency. In this case the adjusted cost results in an additional $1,112,260 in eligible basis and $793,851 in additional credit. The total eligible credit of $2,222,045 will be compared to the amount determined by the gap in financing to determine any recommended allocation.

FINANCING STRUCTURE

SOURCES & USES Number of Revisions: One Date of Last Applicant Revision: 8/7/2008

Source: KeyBank Real Estate Capital Type: **Interim to Permanent Financing**

Principal: $6,176,716 Interest Rate: 7.63% [ ] Fixed Term: 480 months

Comments:

The loan will be provided through the FHA 221(d)(4) program. The commitment from KeyBank lists the Note rate as 7.18% with MIP of 0.45%, but the total is incorrectly indicated at 8.06%. The debt service listed on the proforma is consistent with the total of the Note Rate and MIP, so the underwriting analysis assumes the correct rate is 7.63%.

Source: San Antonio Housing Authority Type: **Interim to Permanent Financing**

Principal: $4,641,000 Interest Rate: 4.5% [x] Fixed Amort: 480 months

Comments:

The loan will begin amortizing after full payment of the deferred development fee. The source is Replacement Housing Factor Funds. RHF funds are granted by HUD to Public Housing Authorities for the replacement of public housing units that have been demolished or sold.

Source: San Antonio Housing Authority Type: **Interim to Permanent Financing**

Principal: $900,000 Interest Rate: 4.5% [x] Fixed Amort: 480 months

Comments:

The loan will begin amortizing after payment of the $4,641,000 loan to the San Antonio Housing Authority. The source of these funds is listed as being a portion of the land sale proceeds loaned back to the partnership.

Source: RED Capital Group Type: **Syndication**

Proceeds: $9,958,008 Syndication Rate: 83% Anticipated HTC: $ 1,200,000

Comments:

Applications from 2008 being considered for forward commitments were required to submit updated syndication letters by 12/1/2008. The Applicant simply resubmitted a copy of the original syndication letter dated February 22, 2008, indicating a credit price of $0.83.

Amount: $692,512 Type: **Deferred Developer Fees**

CONCLUSIONS

Recommended Financing Structure:

As stated above, the Applicant's year one proforma and the debt service on the primary mortgage provide an acceptable debt coverage ratio of 1.16. However, there is an additional $5.4 million in soft financing. All proposed debt has a stated maturity of 40 years. An underwriting proforma analysis indicates that, at the stated interest rate of 4.5%, assuming all available cash flow is dedicated to the subordinate debt, the $4.6 million second lien will have an outstanding balance of $11.2 million at the end of 40 years; and the $900,000 third lien will have an outstanding balance of $5.2 million. Since the second lien is sourced from federal funds, it is necessary that it be determined to be a valid debt; if it cannot be reasonably expected to be repaid in full, the amount must be excluded from basis when determining eligibility for tax credits.

As a result, any recommended funding will be subject to receipt, review, and acceptance, by carryover, of firm commitments from SAHA for the second and third lien notes, with all terms and conditions clearly defined. Additionally, receipt, review, and acceptance, by carryover, of an attorney's opinion determining that the Replacement Housing Factor Funds loan can and should be considered to be a valid debt with the reasonable expectation that it will be repaid in full is also a condition of this report.

At its November 13, 2008 meeting, the Governing Board approved an increase in tax credits for all competitive 2007 and 2008 transactions based on the 9% credit rate and a 10% increase in direct and sitework construction costs. As a result, all applications on the 2008 waiting list to be considered for a forward commitment will be treated in the same manner. As discussed previously, the Applicant's total development cost estimate is within 5%; therefore, their cost will be used for purposes of determining the development's eligible basis and funding need. Accordingly, the Applicant's development cost has been increased by 10% as approved by the TDHCA Board for purposes of determining the recommended tax credit allocation.

The Applicant's total development cost estimate (including the 10% increase) less the permanent debt of $11,717,716 indicates the need for $11,762,784 in gap funds. Based on the submitted syndication rate of $0.83 per credit, a tax credit allocation of $1,417,486 annually would be required to fill this gap in financing. This is less than the credit amount of $2,222,045 determined by eligible basis; therefore, the amount determined by the gap in financing is recommended. An annual allocation of $1,417,486 results in equity proceeds of $11,762,784.

The Underwriter's recommended financing structure does not indicate the need for any additional permanent funds.

In the event that the Replacement Housing Factor Funds are determined to constitute a federal grant rather than a loan, it appears that there is sufficient excess basis such that the $4.6 million can be excluded and the allocation would still be determined by the gap in financing. In such a circumstance, the underwriting analysis should be reevaluated.

Underwriter:	*Carl Hoover*	Date:	March 26, 2009
Reviewing Underwriter:	*Thomas Cavanagh*	Date:	March 26, 2009
Director of Real Estate Analysis:	*Brent Stewart*	Date:	March 26, 2009

MULTIFAMILY COMPARATIVE ANALYSIS

Sutton Homes, San Antonio, HTC 9% #08190

Type of Unit	Number	Bedrooms	No. of Baths	Size in SF	Gross Rent Lmt.	Rent Collected	Rent per Month	Rent per SF	Tnt-Pd Util	WS&T
30%/PH	10	1	1	750	$307	$100	$1,000	$0.13	$66.66	$35.82
TC 60%	43	1	1	750	615	548	23,579	0.73	66.66	35.82
MR	2	1	1	750	0	645	1,290	0.86	66.66	35.82
TC 30%	8	2	2	985	368	287	2,298	0.29	80.69	42.62
30%/PH	24	2	2	985	368	100	2,400	0.10	80.69	42.62
TC 50%	22	2	2	985	615	534	11,755	0.54	80.69	42.62
TC 60%	35	2	2	985	738	657	23,006	0.67	80.69	42.62
MR	2	2	2	985	0	768	1,537	0.78	80.69	54.11
TC 30%	2	3	2	1,161	426	324	648	0.28	102.10	54.11
30%/PH	5	3	2	1,161	426	100	500	0.09	102.10	54.11
TC 50%	6	3	2	1,161	711	609	3,653	0.52	102.10	54.11
TC 60%	29	3	2	1,161	853	751	21,776	0.65	102.10	54.11
MR	2	3	2	1,161	0	871	1,742	0.75	102.10	54.11
TC 60%	2	4	2	1,250	$952	800	1,599	0.64	152.30	74.05
MR	2	4	2	1,250	$0	950	1,900	0.76	152.30	74.05
TOTAL:	194		AVERAGE:	964		$509	$98,683	$0.53	$83.04	$44.06

INCOME	Total Net Rentable Sq Ft: 186,969			TDHCA	APPLICANT	COUNTY	IREM REGION	COMPT. REGION
POTENTIAL GROSS RENT				$1,184,191	$1,239,120	Bexar	San Antonio	9
Secondary Income		Per Unit Per Month:	$15.00	34,920	70,428	$30.25	Per Unit Per Month	
Other Support Income:				0		$0.00	Per Unit Per Month	
POTENTIAL GROSS INCOME				$1,219,111	$1,309,548			
Vacancy & Collection Loss		% of Potential Gross Income:	-7.50%	(91,433)	(91,668)	-7.00%	of Potential Gross Income	
Public Housing Operating Subsidy				89,569				
EFFECTIVE GROSS INCOME				$1,217,247	$1,217,880			

EXPENSES	% OF EGI	PER UNIT	PER SQ FT	TDHCA	APPLICANT	PER SQ FT	PER UNIT	% OF EGI
General & Administrative	7.11%	$446	0.46	$86,489	$86,000	$0.46	$443	7.06%
Management	4.07%	256	0.27	49,584	48,715	0.26	251	4.00%
Payroll & Payroll Tax	15.95%	1,001	1.04	$194,202	185,000	0.99	954	15.19%
Repairs & Maintenance	8.42%	528	0.55	$102,475	105,000	0.56	541	8.62%
Utilities	2.47%	155	0.16	30,019	46,655	0.25	240	3.83%
Water, Sewer, & Trash	5.35%	335	0.35	65,074	56,420	0.30	291	4.63%
Property Insurance	3.48%	218	0.23	42,383	42,000	0.22	216	3.45%
Property Tax 0	0.00%	0	0.00	0	0	0.00	0	0.00%
Reserve for Replacements	3.98%	250	0.26	48,500	48,500	0.26	250	3.98%
TDHCA Compliance Fees	0.61%	38	0.04	7,440		0.00	0	0.00%
Other: Supp. Serv., Cable TV	2.21%	139	0.14	26,925	26,925	0.14	139	2.21%
TOTAL EXPENSES	53.65%	$3,366	$3.49	$653,091	$645,215	$3.45	$3,326	52.98%
NET OPERATING INC	46.35%	$2,908	$3.02	$564,156	$572,665	$3.06	$2,952	47.02%
DEBT SERVICE		$280.54						
Key Bank	40.66%	$2,551	$2.65	$494,902	$497,967	$2.66	$2,567	40.89%
SAHA RHF Funds	0.00%	$0	$0.00	0		$0.00	$0	0.00%
Additional Financing	0.00%	$0	$0.00	0		$0.00	$0	0.00%
NET CASH FLOW	5.69%	$357	$0.37	$69,254	$74,698	$0.40	$385	6.13%
AGGREGATE DEBT COVERAGE RATIO				1.14	1.15			
RECOMMENDED DEBT COVERAGE RATIO					1.16			

CONSTRUCTION COST

Description	Factor	% of TOTAL	PER UNIT	PER SQ FT	TDHCA	APPLICANT	PER SQ FT	PER UNIT	% of TOTAL
Acquisition Cost (site or bldg)		5.16%	$6,186	$6.42	$1,200,000	$1,200,000	$6.42	$6,186	5.11%
Off-Sites		0.00%	0	0.00	0		0.00	0	0.00%
Sitework		6.32%	7,587	7.87	1,471,817	1,471,817	7.87	7,587	6.27%
Direct Construction		45.37%	54,421	56.47	10,557,742	9,650,778	51.62	49,746	41.10%
Contingency	4.63%	2.40%	2,873	2.98	557,442	557,442	2.98	2,873	2.37%
Contractor's Fees	12.97%	6.70%	8,042	8.34	1,560,189	1,560,189	8.34	8,042	6.64%
Indirect Construction		9.61%	11,523	11.96	2,235,508	2,235,508	11.96	11,523	9.52%
Ineligible Costs		7.02%	8,424	8.74	1,634,350	1,414,406	7.56	7,291	6.02%
Developer's Fees	12.95%	9.82%	11,778	12.22	2,284,982	2,284,982	12.22	11,778	9.73%
Interim Financing		5.42%	6,501	6.75	1,261,241	1,261,241	6.75	6,501	5.37%
Reserves		2.18%	2,617	2.72	507,772	731,877	3.91	3,773	3.12%
TOTAL COST		100.00%	$119,954	$124.46	$23,271,043	$23,480,500	$125.58	$121,034	100.00%
Construction Cost Recap		*60.79%*	*$72,924*	*$75.67*	*$14,147,190*	*$13,240,226*	*$70.82*	*$68,249*	*56.39%*

SOURCES OF FUNDS	%	PER UNIT	PER SQ FT	TDHCA	APPLICANT	RECOMMENDED	
Key Bank	26.54%	$31,839	$33.04	$6,176,716	$6,176,716	$6,176,716	Developer Fee Available
SAHA RHF Funds	19.94%	$23,923	$24.82	4,641,000	4,641,000	4,641,000	$2,284,982
San Antonio Housing Authority	3.87%	$4,639	$4.81	900,000	900,000	900,000	
HTC Syndication Proceeds	42.79%	$51,330	$53.26	9,958,008	9,958,008	11,762,784	% of Dev. Fee Deferred
Deferred Developer Fees	2.98%	$3,570	$3.70	692,512	692,512		0%
Additional (Excess) Funds Req'd	3.88%	$4,654	$4.83	902,807	1,112,264	0	15-Yr Cumulative Cash Flow
TOTAL SOURCES				$23,271,043	$23,480,500	$23,480,500	$2,209,802

DIRECT CONSTRUCTION COST ESTIMATE

Marshall & Swift Residential Cost Handbook

Average Quality Multiple Residence Basis

CATEGORY	FACTOR	UNITS/SQ FT	PER SF	AMOUNT
Base Cost			$54.10	$10,115,716
Adjustments				
Exterior Wall Finish	0.40%		$0.22	$40,463
Elderly			0.00	0
9-Ft. Ceilings	3.05%		1.65	308,529
Sprinklers	$1.95	186,969	1.95	364,590
Subfloor			(0.89)	(167,324)
Floor Cover			2.43	454,335
Breezeways/Balconies	$22.27	36,006	4.29	801,854
Plumbing Fixtures	$805	417	1.80	335,685
Rough-ins	$400	388	0.83	155,200
Built-In Appliances	$1,850	194	1.92	358,900
Exterior Stairs	$1,800	72	0.69	129,600
Enclosed Corridors	$42.14	34,664	7.81	1,460,869
Heating/Cooling			1.90	355,241
Garage & Storage	$17.64	12,836	1.21	226,427
Comm &/or Aux Bldgs	$65.23	6,139	2.14	400,462
Carports	$10.15	16,000	0.87	162,400
SUBTOTAL			82.92	15,502,947
Current Cost Multiplier	1.00		0.00	0
Local Multiplier	0.86		(11.61)	(2,170,413)
TOTAL DIRECT CONSTRUCTION COSTS			$71.31	$13,332,535
Plans, specs, survy, bld prm	3.90%		($2.78)	($519,969)
Interim Construction Interest	3.38%		(2.41)	(449,973)
Contractor's OH & Profit	11.50%		(8.20)	(1,533,241)
NET DIRECT CONSTRUCTION COSTS			$57.92	$10,829,351

PAYMENT COMPUTATION

Primary	$6,176,716	Amort	480
Int Rate	7.63%	DCR	1.14

Secondary	$4,641,000	Amort	0
Int Rate	4.50%	Subtotal DCR	1.14

Additional	$900,000	Amort	0
Int Rate	4.50%	Aggregate DCR	1.14

RECOMMENDED FINANCING STRUCTURE APPLICANT'S NOI:

Primary Debt Service	$494,902
Secondary Debt Service	0
Additional Debt Service	0
NET CASH FLOW	$77,763

Primary	$6,176,716	Amort	480
Int Rate	7.63%	DCR	1.16

Secondary	$4,641,000	Amort	0
Int Rate	4.50%	Subtotal DCR	1.16

Additional	$900,000	Amort	0
Int Rate	4.50%	Aggregate DCR	1.16

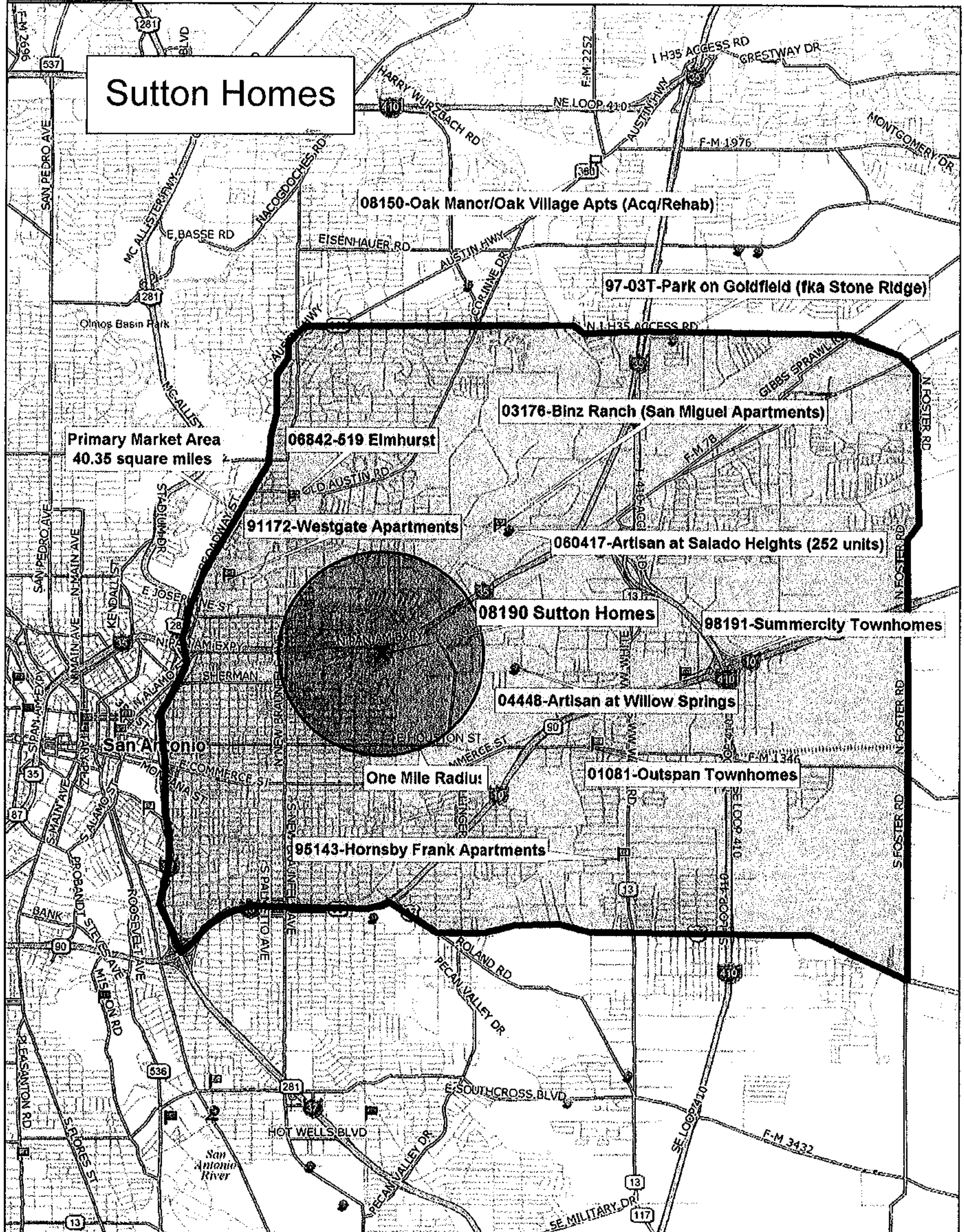
OPERATING INCOME & EXPENSE PROFORMA: RECOMMENDED FINANCING STRUCTURE (APPLICANT'S NOI)

INCOME at 3.00%	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 10	YEAR 15	YEAR 20	YEAR 30
POTENTIAL GROSS RENT	$1,239,120	$1,276,294	$1,314,582	$1,354,020	$1,394,640	$1,616,771	$1,874,280	$2,172,804	$2,920,067
Secondary Income	70,428	72,541	74,717	76,959	79,267	91,893	106,529	123,496	165,968
Other Support Income:	0	0	0	0	0	0	0	0	0
POTENTIAL GROSS INCOME	1,309,548	1,348,834	1,389,299	1,430,978	1,473,908	1,708,663	1,980,809	2,296,300	3,086,036
Vacancy & Collection Loss	(91,668)	(101,163)	(104,197)	(107,323)	(110,543)	(128,150)	(148,561)	(172,223)	(231,453)
Public Housing Operating Subs	0	0	0	0	0	0	0	0	0
EFFECTIVE GROSS INCOME	$1,217,880	$1,247,672	$1,285,102	$1,323,655	$1,363,365	$1,580,513	$1,832,248	$2,124,078	$2,854,583
EXPENSES at 4.00%									
General & Administrative	$86,000	$89,440	$93,018	$96,738	$100,608	$122,405	$148,924	$181,189	$268,204
Management	48,715	49,907	51,404	52,946	54,534	63,220	73,290	84,963	114,183
Payroll & Payroll Tax	185,000	192,400	200,096	208,100	216,424	263,313	320,360	389,767	576,951
Repairs & Maintenance	105,000	109,200	113,568	118,111	122,835	149,448	181,826	221,219	327,458
Utilities	46,655	48,521	50,462	52,481	54,580	66,405	80,791	98,295	145,501
Water, Sewer & Trash	56,420	58,677	61,024	63,465	66,003	80,303	97,701	118,868	175,954
Insurance	42,000	43,680	45,427	47,244	49,134	59,779	72,730	88,488	130,983
Property Tax	0	0	0	0	0	0	0	0	0
Reserve for Replacements	48,500	50,440	52,458	54,556	56,738	69,031	83,986	102,182	151,255
Other	26,925	28,002	29,122	30,287	31,498	38,323	46,625	56,727	83,970
TOTAL EXPENSES	$645,215	$670,267	$696,578	$723,927	$752,355	$912,226	$1,106,235	$1,341,698	$1,974,458
NET OPERATING INCOME	$572,665	$577,405	$588,524	$599,728	$611,010	$668,288	$726,014	$782,380	$880,125
DEBT SERVICE									
First Lien Financing	$494,902	$494,902	$494,902	$494,902	$494,902	$494,902	$494,902	$494,902	$494,902
Second Lien	0	0	0	0	0	0	0	0	0
Other Financing	0	0	0	0	0	0	0	0	0
NET CASH FLOW	$77,763	$82,503	$93,622	$104,826	$116,108	$173,386	$231,112	$287,478	$385,223
DEBT COVERAGE RATIO	1.16	1.17	1.19	1.21	1.23	1.35	1.47	1.58	1.78

HTC ALLOCATION ANALYSIS -Sutton Homes, San Antonio, HTC 9% #08190

CATEGORY	APPLICANT'S TOTAL AMOUNTS	TDHCA TOTAL AMOUNTS	APPLICANT'S REHAB/NEW ELIGIBLE BASIS	TDHCA REHAB/NEW ELIGIBLE BASIS	10% Increase
Acquisition Cost					
Purchase of land	$1,200,000	$1,200,000			
Purchase of buildings					
Off-Site Improvements					
Sitework	$1,471,817	$1,471,817	$1,471,817	$1,471,817	$147,182
Construction Hard Costs	$9,650,778	$10,557,742	$9,650,778	$10,557,742	$965,078
Contractor Fees	$1,560,189	$1,560,189	$1,557,163	$1,560,189	
Contingencies	$557,442	$557,442	$556,130	$557,442	
Eligible Indirect Fees	$2,235,508	$2,235,508	$2,235,508	$2,235,508	
Eligible Financing Fees	$1,261,241	$1,261,241	$1,261,241	$1,261,241	
All Ineligible Costs	$1,414,406	$1,634,350			
Developer Fees					
Developer Fees	$2,284,982	$2,284,982	$2,284,982	$2,284,982	
Development Reserves	$731,877	$507,772			
TOTAL DEVELOPMENT COSTS	$22,368,240	$23,271,043	$19,017,619	$19,928,921	$1,112,260

Deduct from Basis:				
All grant proceeds used to finance costs in eligible basis				
B.M.R. loans used to finance cost in eligible basis				
Non-qualified non-recourse financing				
Non-qualified portion of higher quality units [42(d)(3)]				
Historic Credits (on residential portion only)				
TOTAL ELIGIBLE BASIS		$19,017,619	$19,928,921	$1,112,260
High Cost Area Adjustment		130%	130%	100%
TOTAL ADJUSTED BASIS		$24,722,905	$25,907,598	$1,112,260
Applicable Fraction		95.57%	95.57%	95.57%
TOTAL QUALIFIED BASIS		$23,626,454	$24,758,606	$1,062,931
Applicable Percentage		9.00%	9.00%	9.00%
TOTAL AMOUNT OF TAX CREDITS		$2,126,381	$2,228,275	$95,664
Syndication Proceeds	**0.8298**	**$17,645,432**	**$18,490,980**	**$793,851**
Total Tax Credits (Eligible Basis Method)		**$2,126,381**	**$2,228,275**	**$2,222,045**
Syndication Proceeds		**$17,645,432**	**$18,490,980**	**$18,439,282**
Requested Tax Credits		**$1,200,000**		
Syndication Proceeds		**$9,958,008**		
Gap of Syndication Proceeds Needed		**$11,762,784**	**$12,453,327**	
Total Tax Credits (Gap Method)		**$1,417,486**	**$1,500,701**	



Scale 1 : 81,250
1" = 1.28 mi
Data Zoom 11-3