MAP Lender Underwriter's Narrative
New Construction / Substantial Rehabilitation
Summary
December 2015 Closing

Executive Summary

The proposed loan is to provide tax exempt bond credit enhancement for the financing and substantial rehabilitation of the Project, which consists of a 22-story building containing a total of 200 elderly / handicapped affordable units on a site of ~ 1 acre. The Project will also be financed with ~$9,274,000 in equity from the allocation of 4% Low Income Housing Tax Credits and two awards under consideration from the Maryland CDA totaling ~3,200,000.

The Project is currently financed with a bridge loan, which was used by the sponsors to acquire the project ahead of HUD-insured permeant financing. On July 2, 2014, the Project was approved by the Office of Affordable Housing Preservation ("OAHP") to Convert Assistance under the RAD Program for Project Based Vouchers for 91% of the units.

Transaction Overview:

Case Two (the "Project/Property/Subject") is located in _____, MD approximately __ miles from downtown Baltimore and approximately ______ of the Baltimore beltway. Case Two was developed from 1974 to 1976 and contains 200 units (120 studio & 80 one-bedroom apartments) located in a 22-story high rise apartment building on ~1.1 acres. Amenities include full kitchens, telephone access entry, community room, common space, 24 hour emergency maintenance service, available private parking and optional reduced-cost a la carte lunch service offered through Baltimore County Department of Aging, in addition to being a pet friendly property. The building is constructed of a structural steel frame encased in concrete. The Project's foundation consists of reinforced, poured concrete. Case Two's exterior walls are pre-cast concrete panels and the interior walls are painted drywall. The roofing is a flat, rubber membrane. There are two elevators at the Property; one was upgraded in 2010, the other in 2013. The total gross square footage of the Project is 122,800, with a net residential area of 92,400 square feet and net commercial area of 7,600 square feet. The commercial space is currently leased to the Tenant. The residency at the Property is restricted to elderly and disabled individuals. Historically, occupancy has been strong and is currently at 96.0% and the project received a score of 97a on its last REAC inspection in 2012.

The project was acquired with a $___ million bridge loan from Sponsor Bank, which matures on December 29, 2015. Previous to the sponsor's acquisition of the subject, it was financed with a HUD Section 236 loan benefiting from IRP payments. Additionally, affiliates of the sponsor contributed ~$____ million to complete to the acquisition.

On July 2, 2014, the Project was approved by the Office of Affordable Housing Preservation ("OAHP") to Convert Assistance under the RAD Program. 182 of the units are currently covered by a project based HAP contract effective January 1, 2015 with an initial term of 15 years. The remaining 18 units are restricted to 60% AMI tenants.

The Borrower is proposing to complete a ~$47,100/unit rehab at the Property. The sponsor's strategy for the building improvements is to perform the work necessary to provide long term stability to the property, including additional interior rehabilitation, green technologies and energy efficiency to the greatest extent feasible, and to improve the property's long-term durability.

> *Unit Accessibility*: Case Two will be a federally assisted project undergoing Other Alterations (i.e. the moderate rehab does not meet the Substantial Alterations threshold of 75% of replacement costs) in accordance with Notice

H 2012-27. As a result, alterations will be completed to the maximum extent feasible, unless an undue financial and administrative burden is imposed.

One of the primary needs of the Project is unit accessibility. When the development was built in the 1970s, there were no provisions for accessible units. The sponsor will renovate 10 of the existing studio residential units to meet UFAS 504 accessibility requirements of 5%. An additional four units shall be updated to provide all required notifications/alarms for visually and hearing impaired residents and meet the 2% UFAS 504 requirement. As mentioned above, 10 of the studio units will be converted to 504 compliance, but not all studio units can be converted. In some cases, this is due to the lack of clearance between demising wall and trash chute, not allowing the space for full conversion to UFAS compliance of the bathrooms. In other cases, the kitchens could not be converted due to space constraints. For the one-bedroom units, the space constraints in the bathrooms and bedrooms would not allow both rooms to be UFAS compliant post improvements. In addition, the accessibility route from the parking lot to the elevator in the building is not compliant due to the stairways in the rear of the building and the slope along the vehicular way to the front of the building has a cross and running slope which exceeds accessibility requirements. The rear stairways layout and existing headroom make installing a lift to access the entry door infeasible. The main entry currently has a ramp, however the ramp is not UFAS compliant due to its slope. A new accessible ramp will be installed in conjunction with this transaction.

The project was inspected by HUD–Baltimore, with the sponsor, in November 2014 as part of the 223(f) Pilot submission. The crucial part of this inspection was to determine if the Section 504 accessibility improvement plan as presented in the Accessibility Compliance Assessment Report dated 9-15-2014 was acceptable. (This report is included in this application). On December 17, 2014, the underwriter was informed by HUD-Boston that an agreement had been reached between the sponsor and HUD-Baltimore for the scope of the improvements for accessibility. According to the discussions between HUD-Baltimore (HUD Architect Reviewer) and the Sponsor of Sponsor, the improvement plan was accepted as presented with the following two additions: (i) a compliant ramp needed to be constructed at the front of the building, and (ii) three (3) accessible parking spaces would be required at the rear of the building. OGC has requested an internal HUD report documenting the acceptable UFAS improvement plan from HUD-Baltimore to confirm acceptability, which has not been received to date.

The remaining residential units will benefit from upgraded mechanical equipment, renovated kitchens and baths, new flooring, and new interior doors. Other renovations include the following:

Community Room: The renovations will include a new wellness office for on-site medical visits, residential services spaces, laundry room, a new accessible community kitchen, accessible bathroom and activity area.

Site Amenities: Plans call for renovation of the existing patio area, dumpster area and landscaping. The smoking area will be moved away from the main entrance of the building. New landscaping will be implemented to give the building more curb appeal and additional landscaping will be installed where possible to provide more green space on a very urban site.

Green Technology: The Sponsor has engaged New Ecology, Inc. to conduct an energy audit of the Case Two property as well as to provide advice on the green technology related scope of the project. The sponsor proposes following the criteria of Enterprise Green Communities, a program similar to the LEED™ Green Building Rating System specifically geared toward affordable housing providers. As part of the Enterprise Green program, the sponsor proposes incorporating all the mandatory criteria in addition to the following optional components:

- Installation of water-conserving fixtures including water closets (1.2gpf), shower heads (1.5gpm), kitchen faucets (1.5gpm) and bathroom faucets (0.5gpm). (Credit 4.2)
- Diversion of construction waste from landfill to approved recycling and reuse facilities with a goal of 75% waste diversion. (Credit 6.4)
- Use of recycled content material when available; use of regional materials when available. (Credit 6.7)

- Installation of Energy Star–labeled bathroom fans that exhaust to the outdoors, are connected to a light switch and are equipped with a humidistat sensor, timer or other control. (Credit 7.4b)
- Installation of power-vented fans or range hoods that exhaust to the exterior at the appropriate cfm rate, per ASHRAE 62.2, or install a central ventilation system with rooftop fans that meet efficiency criteria. (Credit 7.5b)
- Replacing of unit water heaters with new 30 gallon hot water heaters with a minimum 0.93 energy factor.

Energy Efficiency: The sponsor will incorporate motion type lighting sensors for common area amenities and utilitarian spaces such as community rooms, common laundry rooms, etc. New lighting fixtures and existing lighting fixtures shall receive compact fluorescent lamps to the greatest extent possible. Any new recessed lighting fixtures shall be sealed. Any new penetrations or existing penetrations exposed throughout the course of the work through the exterior envelope shall be carefully sealed. All new refrigerator/freezers and dishwashers shall be Energy Star qualified.

Unit Improvements - Kitchens: High pressure plastic laminate faced flush overlay cabinets meeting HUD Severe Use requirements with plastic laminate finish countertops and backsplashes will be provided; provide single stainless steel sinks based upon cabinet and countertop replacements noted above; counter mounted polished chrome two handle faucet with separate spray (low flow); new vinyl plank flooring; new appliances- Free Standing Electric Range Top Mount Refrigerator Freezer (Energy Star); energy efficient lighting; GFI receptacles (if they do not currently exist).

Unit Improvements - Bathrooms: High pressure plastic laminate faced flush overlay cabinets meeting HUD Severe Use requirements, solid surface countertops with integral bowl and backsplashes; counter mounted polished chrome lever faucet, low flow; remove existing flooring at bathrooms. Provide new sheet vinyl flooring; provide low flow water closets; re-glaze existing tubs; remove existing tile tub surround and provide three sided fiberglass enclosure; at remaining units re-grout existing tile tub surrounds; provide chrome finish tub spout, anti-scald mixing valve and shower head (low flow).; new toilet accessories; energy efficient lighting; GFI receptacle (if one does not exist).

Unit Improvements – Living Rooms, bedrooms, closets: New carpet throughout dwelling units; walls shall be painted (eggshell finish); new wood swing doors and hardware at bedroom and bath; new wood bi-fold doors and hardware at closets.

In addition, the two elevator controls and notifying lights will be upgraded.

The Property will utilize LIHTC as a component of the financing sources. The LIHTC Regulatory Agreement will require that 100% of the units be set-aside for tenants at or below 60% of the Area Median Income (“AMI”). The Regulatory Agreement will have a minimum term through the end of 2045. It is anticipated that the Project will generate LITHC cash equity of approximately $9.2 million. The sponsor anticipates that the state of Maryland Community Development Administration will award ~$3.2 million to the project through its ______ programs. A kick off meeting with the state is scheduled for July 7, 2015

The Project is zoned BM-CT, Business Major with Commercial, Town Core Overlay. According to Baltimore Housing Zoning Review (“BHZR”), elderly housing is allowed in any CT district and multifamily housing is allowed in a BM district. The Project is “Legal-Nonconforming” for Open Space and Building Height. Zoning regulations for this district call for an open space ratio of 0.1 (defined as amenity open space divided by adjusted gross building floor area). The zoning report indicates a ratio of 0.04, based on the survey. Additionally, the building height exceeds the permitted height by 120-feet. According to the County, it is uncertain in this case how permission was granted for the Project to be constructed at its current height but a zoning Director has discretion to approve heights within a CT district. Review of local Code allows full restoration (within two years) of a project to its original size, number of units and design if destroyed or damaged to any extent by fire or other casualty. According to the Office of Code Enforcement, records do not indicate any open violations against the property.

It is anticipated that Project reserves and escrows will include an Operating Reserve of ~$379,000 and a Debt Service Reserve of ~$436,000 as required and held by the LIHTC syndicator. The total reserves described above are greater than the HUD required reserves (equal to the greater of 3% of the mortgage amount or 6 months of debt service).

Waiver requests will consist of: (i) an accountant's review of certain interim financial statements of the Project, (ii) approval by HUD of the final Plans and Specs submission which includes 504 accessibility improvements, (iii) allow for non-elderly handicapped residents, and (iv) an acceptable commitment from the LIHTC equity syndicator for purchase of the housing tax credits.

The HUD Commitment should include as conditions for closing: (i) receipt of acceptable commitment from the State of Maryland for the tax exempt bonds and LIHTC equity, (ii) an acceptable commitment from the LIHTC equity syndicator for the purchase of the housing tax credits, (iii) submission of a commitment letter for grants/loans from the State of Maryland and (iv) receipt of updated financial statements and work-in-progress schedules from GC, the general contractor, demonstrating that they meet the 5% working capital test.

Oak Grove is requesting an expedited processing of this FHA application. As mentioned later in the narrative under Additional Comments, there have been numerous delays in the required approvals of the stakeholders in this transaction. Such approvals required numerous changes to the transaction, particularly the scope of the rehabilitation. To help finance the additional cost of the rehabilitation, the sponsor requested from Baltimore County relief from paying full real estate taxes through a payment in lieu agreement. A draft of this agreement is included in the application. One of the timing provisions in this agreement includes the requirement for the Outstanding Safety and Laundry Facilities improvements be completed by December 31, 2016. As a result, it is crucial that the sponsor is able to begin making these improvements as soon as possible in order to meet this deadline which is key in maintaining the Payment in Lieu of Real Estate Tax agreement with the County.

Based upon Oak Grove Commercial Mortgage, LLC ("OGCM") review and analysis, the proposed loan represents an acceptable risk to the Department of Housing and Urban Development ("HUD"), is a financially sound transaction, and as a result, OGCM recommends this transaction to HUD.

Stress Test

Rent Trend Assumption	102%	102%	102%	102%	102%	102%	102%	102%	102%	102%
Expense Trend Assumption	103%	103%	103%	103%	103%	103%	103%	103%	103%	103%
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Effective Gross Income	$2,648,747	$2,698,527	$2,749,317	$2,801,137	$2,854,009	$2,907,954	$2,962,994	$3,019,151	$3,076,449	$3,134,910
Expenses (including R4R)	$1,106,602	$1,135,616	$1,165,476	$1,196,208	$1,227,836	$1,260,387	$1,293,889	$1,328,369	$1,363,856	$1,400,380
NOI (incl TIF if applicable)	$1,542,145	$1,562,911	$1,583,840	$1,604,929	$1,626,173	$1,647,567	$1,669,105	$1,690,782	$1,712,592	$1,734,529
Annual Debt Service (incl. MIP)	$1,338,989	$1,338,989	$1,338,989	$1,338,989	$1,338,989	$1,338,989	$1,338,989	$1,338,989	$1,338,989	$1,338,989
Net Cash Flow	$203,156	$223,922	$244,851	$265,940	$287,184	$308,578	$330,116	$351,793	$373,603	$395,540
Debt Service Coverage Ratio	1.16x	1.17x	1.19x	1.2x	1.22x	1.24x	1.25x	1.27x	1.28x	1.3x

The above stress table indicates that based on a 2% trending of revenues and 3% trending of operating expenses (absent trending in management fees and replacement reserve deposits), NOI and DSC remain stable over the first 10 years of the mortgage term.

STRENGTHS, RISKS and MITIGANTS

Market / Value

Strengths

- Strong occupancy of both market rate comparable and LIHTC comparable.
- High demand for affordable senior rental housing as demonstrated by the appraisal and high occupancy at the subject property which has averaged 98.1% annually since 2011.

Risks and Mitigating Factors

- No material risks noted.

Property / Site / Neighborhood / A&E / Environmental

Strengths

- Project occupancy is currently 96% and has been historically strong.
- The planned rehabilitation will enhance the Project's appeal and enhance the comfort and security of the current and future residents.
- The appraiser has determined the remaining economic life to be approximately 55 years.
- Radon testing revealed readings below the recommended levels.
- The project contains no lead based paint.

Risks and Mitigating Factors

- Non-Compliance with Section 504 of the Rehabilitation Act of 1973. The Project does not fully comply with Section 504 since 5% of the units (10 units) do not currently meet the accessibility requirements. Further, accessibility to the building and certain common areas are also not in compliance. The lender ordered a third party engineering review of the accessibility deficiencies of the Project. Please refer to Section 59 of the application, Accessibility Compliance Assessment dated July 30, 2014.
  - As mentioned above, the scope of the rehabilitation will include improvements which will convert 10 studio units to Section 504 compliant units. Due to the size and configuration of the one bedroom units (and additional studio units), it is not feasible to convert these units to Section 504 compliance. Please see above Transaction Overview.
  - In addition, four units will be improved for full compliance for site / hearing impairment.
  - Building accessibility and common areas will be improved to enhance accessibility compliance, however due to the configuration of the building, it is not feasible to achieve full compliance. As a result, the scope of work submitted in this application does not include all deficiencies identified in the above mentioned Accessibility Compliance Assessment. At the time of the submission of the final Plans and Specifications and with consultation with HUD, the final scope and costs of these improvements will be determined.
  - As a result, not all unit types can be included in the rehabilitations for Section 504 compliance. Further, not all accessibility routes and common space can be improved to fully comply with Section 504 accessibility requirements. As a result, and as stated in the Housing Notice 2012-27, the project will be "altered where accessibility is required up to the point of infeasibility or undue financial and administrate burdens."
  - The project was inspected by HUD–Baltimore, with the sponsor, in November 2014 as part of the 223(f) Pilot submission. The crucial part of this inspection was to determine if the Section 504 accessibility improvement plan as presented in the Accessibility Compliance Assessment Report dated 9-15-2014 was acceptable. (This report is included in this application). On December 17,

2014, the underwriter was informed by HUD-Boston that an agreement had been reached between the sponsor and HUD-Baltimore for the scope of the improvements for accessibility. According to the discussions between HUD-Baltimore (HUD Architect Reviewer) and the Sponsor of Sponsor, the improvement plan was accepted as presented with the following two additions: (i) a compliant ramp needed to be constructed at the front of the building, and (ii) three (3) accessible parking spaces would be required at the rear of the building. OGC has requested an internal HUD report documenting the acceptable UFAS improvement plan from HUD-Baltimore to confirm acceptability, which has not been received to date.

- The Project is "Legal-Nonconforming" for Open Space and Building Height.
  - Local Code allows full restoration (within two years) of a project to its original size and design if destroyed by fire or other casualty
- Asbestos containing material was identified at the property.
  - The ACM floor tiles are non-friable. An O&M plan is sufficient to mitigate and has been prepared.
- A 550 gallon underground storage tank is present, which had an Oil Control Program Leaking Storage Tank Case associated with it was identified by the Phase I report.
  - The tank was closed in place on December 19, 2002.
  - A Phase II environmental assessment was completed in 2003. No evidence of groundwater contamination was discovered and the results of soil boring analysis were below recommended levels.
  - The Maryland Department of the Environment's Oil Control Program Leaking Storage Tank Case was closed on 9/23/2003.
  - Soil gas samples were collected on the south (down-gradient) and north (cross-gradient) sides of the UST on June 5, 2014 by Foundation Test Group and analyzed by a Maryland certified analytical laboratory in accordance with EPA method TO-15. It was determined that no evidence exists for the likelihood of unacceptable vapor intrusion at the site due to contamination of the soil surrounding the closed UST. Foundation Test Group concluded a Vapor Encroachment Condition is not likely to exist at the property.

Affordability issues

Strengths

- The subject was awarded Section 8 project-based vouchers effective January 1, 2015 for a period of 15 years for 182 of its units. The remaining 18 units restricted to residents earning 60% of AMI and are likely to be continued to be occupied by residents who hold tenant based vouchers.
- The HAP rents of $1,000 for studio units (covering a total of 108 units) and $1,182 for 1 BR units (a total of 72 units) are slightly below the appraiser's market rents of $1,025 (studio) and $1,200 (1 BR). LIHTC restricted units are underwritten to the achievable levels of $928 (12 studios) and $995 (6 one bedroom units.

Risks and Mitigating Factors

- None noted

Programmatic or General Underwriting Issues

Strengths

- DSCR projected to equal to 1.15x, above the 221(d)(4) programmatic minimum of 1.10x

- Loan-to-Cost ratio of 66.2%, below the programmatic minimum of 90%

Risks and Mitigating Factors

None noted.

Waiver Requests

1. OGCM respectfully requests a waiver of Section 8.4.B.3.b. regarding the need for Year-to-Date CPA reviewed financial statements for the mortgagor. In addition, the 2014 financial statements are not audited or reviewed by an accountant and exclude November and December 2014 operations. This is due to the sale of the Project to an affiliate of the sponsor in December 2014 where the prior owner elected to not prepare full 2014 financial statements. OGCM believes that this is a reasonable request given that the project has a long track record of consistent performance, is positioned in a strong stable market, is supported by the comparables occupancy and operations and has provided two years of audited financial statements in the Firm Application submission along with a management-prepared and owner-certified financial statement from January through October 2014 and January through April 2015.

2. OGCM respectfully requests a waiver of Section 504 of the Rehabilitation Act of 1973 for full 504 compliance of the Project. The Project does not fully comply with Section 504 as 5% of the units (10 units) do not currently meet the accessibility requirements. Further, accessibility to the building and certain common areas are also not in compliance. The scope of the rehabilitation will include improvements which will convert 10 studio units to Section 504 compliant units. Due to the size and configuration of the one bedroom units (in addition to certain studio units), it is not feasible to convert these units to Section 504 compliance. In addition, four units will be improved for full compliance for site / hearing impairment. As a result, not all unit types can be included in the rehabilitations for Section 504 compliance. Further, not all accessibility routes and common space can be improved to fully comply with Section 504 accessibility requirements. Building accessibility and common areas will be improved to enhance accessibility compliance, however due to the configuration of the building, it is not feasible to achieve full compliance. As a result, the scope of work submitted in this application does not include all deficiencies identified in the above mentioned Accessibility Compliance Assessment. Thus, the Project will be "altered where accessibility is required up to the point of infeasibility or undue financial and administrative burdens" as described in Housing Notice 2012-27.

3. OGCM respectfully requests a waiver which will grandfather Case Two's ability to house non-elderly handicapped residents while retaining eligibility for refinancing under the 221(d)(4) program. The allowance for this waiver can be found in the "Memorandum on Age Restrictions in FHA Insured Housing" as presented by Mr. Theodore Toon. The memo states that "assisted, age-restricted properties that serve a mix of elderly and non-elderly disabled residents pursuant to a HUD regulatory agreement will be permitted to continue to serve their targeted populations, regardless of the type of mortgage insurance or direct loan or grant financing previously used." The Project was designated as Elderly in Exhibit B – Project Description and Exhibit D - Affirmative Fair Housing Marketing Plan attached to the Housing Assistance Payments Contract effective January 30, 1981. The Project was known as Immanuel Seniors at that time. According to the Project manager, tenant screening includes head of household at least 62 years of age or older, and disabled (at least 18 years of age). As of August 2014, the tenant profile includes 74 units-elderly, 54 units-disabled (including elderly), 9 units with more than one special status, and 1 unit designated no special status.

4. OGCM respectfully requests a waiver of Section 7.7.G.1 of the MAP Guide which provides guidance on the minimum commercial vacancy which should be underwritten under the 221(d)(4) program, which is 20%. Since Case Two has a historical record of commercial leases in place and the underwriting of commercial income is consistent with the historical and current experience, it is requested that the applied vacancy factor be similar to the requirements under a 223(f) transaction which is 10%.

Zoning
The Project is zoned BM-CT, Business Major with Commercial, Town Core Overlay. According to Baltimore Housing Zoning Review ("BHZR"), elderly housing is allowed in any CT district and multifamily housing is allowed in a BM district. The Project is "Legal-Nonconforming" for Open Space and Building Height. Open Space refers to the deficiency of the Project providing adequate amenity open space on the first floor – the deficiency is slight at 0.06 of the required 0.1. Also, the building height exceeds the permitted height by 120-feet. According to the County, it is uncertain in this case how permission was granted for the Project to be constructed at its current height but a zoning Director has discretion to approve heights within a CT district.

Real Estate Taxes
The project has qualified for payment in lieu of taxes until June 30, 2057. The conditions of the payment remain in place unless the HAP contract is terminated due to default, termination of the Regulatory Agreement, failure to pass annual inspection by the county, change in use as rental housing for low-income persons, sale without consent of the county or default. The agreement states that the payment shall increase annually by the greater of 3% or the percentage of the rent increase.

Accessibility
OGCM is requesting a waiver of Section 504 of the Rehabilitation Act of 1973 for full 504 compliance of the Project. The Project does not fully comply with Section 504 since 5% of the units (10 units) do not currently meet the accessibility requirements. Further, accessibility to the building and certain common areas are also not in compliance. The scope of the rehabilitation will include improvements which will convert 10 studio units to Section 504 compliant units. Due to the size and configuration of the one bedroom units (including certain studio units), it is not feasible to convert these units to Section 504 compliance. In addition, four units will be improved for full compliance for site / hearing impairment. As a result, not all unit types can be included in the rehabilitations for Section 504 compliance. Further, not all accessibility routes and common space can be improved to fully comply with Section 504 accessibility requirements. Building accessibility and common areas will be improved to enhance accessibility compliance, however due to the configuration of the building, it is not feasible to achieve full compliance. As a result, the scope of work submitted in this application does not include all deficiencies identified in the above mentioned Accessibility Compliance Assessment. As a result, and as stated in the Housing Notice 2012-27, the Project will be "altered where accessibility is required up to the point of infeasibility or undue financial and administrative burdens."

LIHTC Allocation
The Project was awarded an Official Intent Determination in December 2014 from Community Development Administration for the State of Maryland for the issuance of up to $28,000,000 in tax exempt bonds, which automatically qualifies the project for 4% LIHTC's. Syndicator Group has agreed to fund the 4% LIHTC and become the Limited Partner member of the Borrower. According to the Syndicator's Letter of Intent dated June 29, 2015, the Limited Partner's Capital Contribution is set forth below:

1) 27.0% will be funded upon admission of the Limited Partner into the Limited Partnership.
2) 15.1% will be funded upon 25% lien-free completion of construction.
3) 14.0% will be funded upon 50% lien-free completion of construction.
4) 15.1% will be funded upon 75% lien-free completion of construction.
5) 6.7% will be funded upon certificate of occupancy and initial qualified occupancy.
6) 14.8% will be funded upon accountant certification of acceptable tax credit basis.
7) 4.6% will be funded upon achievement of stabilized operations and;
8) 2.7% will be funded upon satisfaction of IRS Form 8609.

The above capital contribution schedule is reflected in the Financing Plan submitted with the application and conforms to the minimum capital contribution requirements set forth in Ben Metcalf memo of January 30, 2015 re. Affordable Housing Clarifications.

Market Analysis

Comparables from Market Analysis and EMAS

Project Name	Year Built	Number of Units	Occupancy Rate	Units Offered	Tenant Profile
Hampton Place	1971	201	96%	1BR/1BA 2BR/1 BA 2 BR/2 BA	Market
Berkshores at Town Center	1963	196	99%	Studio 1BR/1BA 2BR/1 BA 2 BR/2 BA	Market
Eudowood Towers	1979	83	96%	1BR/1BA 2BR/1 BA	Market
Fairways	1975	137	99%	Studio 1BR/1 BA 1 BR/1.5 BA	Market
Ruxton Towers	1963	144	97%	1BR/1BA 2BR/1 BA 2 BR/2 BA	Market

Narrative Discussion of Market:

The appraiser's research shows population growth of 1.05% from 2010-2014 in Baltimore County, with a total population of 813,493. The population is projected to increase 2.36% by 2019. Since 1970, Baltimore County has maintained the third or fourth highest population in the state.

As of February 2015, Baltimore County had an unadjusted employment rate of 5.9%, slightly higher than the 5.5% rate in both Maryland and nationwide. The county's employment base is strong and contained over 35 major business parks, a research park and over 21,000 acres of zoned industrial land (the largest amount for any county in the state). Major public and private employers in the county include:

Major Employers	
Government / Public	Private
Baltimore County Government	Care First Inc.
Baltimore County Public Schools	Erickson Retirement Communities
Center for Medicare & Medicaid	Greater Baltimore Medical Center
Centers for Medicare & Medicaid Services	McCormick & Company Inc.
Social Security Administration	Severstal Sparrows Point
Towson University	St. Joseph Medical Center
University of Maryland (UMBC)	T. Rowe Price Associates, Inc.

Baltimore County Dept. of Economic Development (2014)

Employment by industry in Baltimore County follows:

Employment by Industry Baltimore County, Maryland		
Industry	Employment	%of Total
Construction & Mining	22,249	6.1%
Manufacturing	17,556	4.8%
Trade, Transportation & Utilities	67,310	18.5%
Information	5,079	1.4%
Financial Activities	29,211	8.0%
Professional & Business	53,370	14.7%
Educational & Health	67,532	18.6%
Leisure & Hospitality	31,687	8.7%
Other Services	11,653	3.2%
Government	57,512	15.8%
Total Employment (non-farm)	363,159	

Maryland Dept. of Labor, Licensing and Regulations (2014)

Median household income in Baltimore County grew 0.04% since 2010 to $63,379 and is projected to grow by 17.67% by 2019. This is an average growth of 3.31% annually and projected to be greater than both Maryland and the nation during this time period.

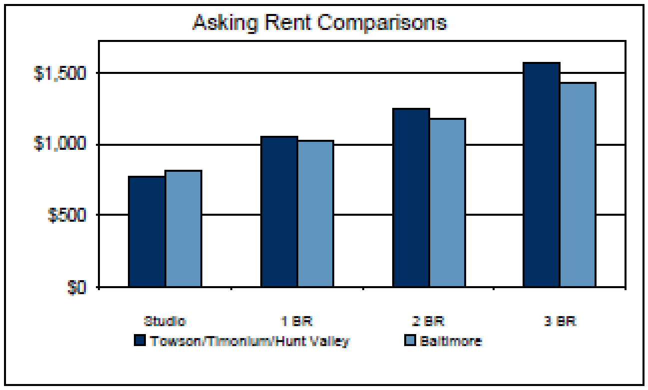
Reis reports 1Q2015 vacancy in the Project's submarket equal to 1.1%, well below comparisons to Baltimore (3.9%), the region (5.1%) and the nation (4.2%). The current vacancy is lower than the previous quarter (1.4%) and down from the short term high of 2.0% in 3Q2013.

	Vacancy Rates Trends								
	1Q15	YTD Avg	4Q14	3Q14	2Q14	1Q14	4Q13	3Q13	2Q13
Towson/Timonium	1.1%	1.1%	1.4%	1.3%	1.0%	1.3%	1.7%	2.0%	2.5%
Baltimore	3.9%	3.9%	4.0%	3.9%	3.9%	3.8%	4.0%	3.9%	3.7%
South Atlantic	5.1%	5.1%	5.2%	5.1%	5.0%	5.0%	5.0%	5.0%	5.0%
United States	4.2%	4.2%	4.2%	4.3%	4.2%	4.1%	4.3%	4.3%	4.3%
Period Ending:	03/31/15	03/31/15	12/31/14	09/30/14	06/30/14	03/31/14	12/31/13	09/30/13	06/30/13

Asking rent in the submarket has increased 1.1% in the first quarter, a rate higher than Baltimore City (0.4%), the region (0.5%) and nation (0.6%). Median rent in the submarket is reported to equal $1,172.

	Asking Rent Growth Trends								
	1Q15	YTD Avg	4Q14	3Q14	2Q14	1Q14	4Q13	3Q13	2Q13
Towson/Timonium	1.1%	1.1%	- 0.7%	0.1%	0.6%	0.2%	1.2%	0.4%	0.8%
Baltimore	0.4%	0.4%	0.6%	0.6%	1.0%	0.7%	0.2%	1.2%	0.8%
South Atlantic	0.5%	0.5%	0.7%	1.0%	0.9%	0.7%	0.6%	1.0%	0.6%
United States	0.6%	0.6%	0.6%	1.1%	1.0%	0.7%	0.9%	1.0%	0.7%
Period Ending:	03/31/15	03/31/15	12/31/14	09/30/14	06/30/14	03/31/14	12/31/13	09/30/13	06/30/13

Asking rent levels in the Project's submarket are above those in Baltimore City for 1 BR, 2 BR and 3 BR units and 5.5% lower ($764 in Project vs $806) in studio units.



	Studio	1 BR	2 BR	3 BR
Towson/Timonium/Hunt Valley	$764	$1,053	$1,251	$1,567
Baltimore	$806	$1,018	$1,173	$1,432

As of 03/31/15

Valuation

Narrative Discussion of Appraisal
The appraiser identified five (5) market rate complexes to use as market rent comparables for the As Is scenario for studio and one bedroom units. The appraiser completed a form HUD-92273 for each of the two (2) different unit groupings for the As Is market approach. For the restricted / renovated approach, the appraiser concluded at the current HAP contract rents for the applicable 182-units, and the attainable tax credit rents for the 18-units not covered by the HAP contract. Such attainable LIHTC rents were based on the current maximium tax credit rents based on 60% of AMI, and discounted based on attainable rents achieved at comparable LIHTC properties.

(Please note that the current HAP Contract does cover all 200-units. This is in contradiction to discussions between the sponsor and the County, where there was agreement for the HAP contract to cover only 182-units based on the Project Based Voucher tenant eligibility requirements).

The rent comparison forms were completed adjusting for dissimilarities that include differences in location, unit size, unit feature, utilities and consideration for age/condition and quality as compared to the Project.

The appraisers and lenders concluded underwritten rents are as follows:

Rent Comparison

Unit Type	Number	Unit Size	Underwritten Rent	Current HAP Contract	2015 LIHTC Allowable - Net (60% AMI)	Attainable Rents for LIHTC Units	Appraiser's Concluded Market Rent - As Is
Studio - Sec 8	108	426	$1,000	$1,000	--------	--------	$1,025
One BR / 1 Bath - Sec 8	74	517	$1,182	$1,182	--------	--------	$1,200
Studio - LIHTC	12	426	$900	--------	$928	$900	$1,025
One BR / 1 Bath - LIHTC	6	517	$965	--------	$995	$965	$1,200
Totals	200		$2,544,696		$0		$2,628,000

<u>Other Income:</u>

Parking – The Project has 40 available open parking spaces available for rent to the tenants. Such rentals have been highly utilized by the tenants. The sponsor and appraiser are forecasting a monthly rental rate of $75. The underwriting concurs with this conclusion.

Laundry – Consistent with historical trends, the sponsor and appraiser are estimating $50 per unit annually for laundry income. The underwriting concurs with this conclusion.

Miscellaneous Other Income - The underwriter included ~$20 PUPA for tenant fees (late charges, unit damage, vending, etc.) which is consistent with historical trends and the sponsor's estimate for recurring income. The appraiser chose not to include Miscellaneous Income in its estimates.

<u>Commercial Income</u>:

Office – Office space is located in the project's basement, and portions of the first and second floors. The basement office space of 1,300 sq. ft. is vacant. The office space on the first and second floors is ~6,200 sq. ft. is leased to Commercial Tenant. For market rate purposes, the appraiser assumed $16 per sq. ft. for the 7,500 sq. ft. of space or $120,000. The appraiser used five comparables with asking rents ranging from $16 to 19.50 per sq. ft. The appraiser concluded at the lower end of the comparables to account for the basement space and an apartment building location. For the restricted scenario, the appraiser considered the post-renovation space available with the lower level for mechanicals and common space, and concluded at $17 per square foot for +/- 6,200 square feet or $105,400.

The current lease with Commercial Tenant runs through 2017 for 6,202 sq. ft. According to the lease and rent roll, the lease payment is currently $81,168 annually ($6,764 per month) and will be underwritten at that level before applying an underwritten vacancy factor of 10% (please see waiver request). The sponsor is in discussions with Commercial Tenant to extend this lease and does not expect any material changes to the terms. No lease revenue was assumed for the basement space since the current plan is to use this space for common use and mechanicals.

Antenna – Historically, the Project has consistently generated income from antenna (cell) leases, ranging from $426 per unit to a 2013 level of $764 per unit. The Project rent roll includes four antenna leases. One of the leases is under re-negotiation and with two of the leases, reimbursement for utilities is scheduled to begin. The appraiser concluded annual antenna income at $122,832, which is an increase from the current rent roll of $103,884. The underwriter agreed with the appraiser's conclusion.

Occupancy at the Project has historically been strong, usually 96% to 98%. According to the June 2015 rent roll, there are eight vacancies at the Project. The appraiser concluded at a 5% total vacancy factor for residential. The underwriter utilized the same level for criterion 5 underwriting. For commercial, the appraiser utilized a market vacancy factor for office space at 20%. The underwriter utilized a more modest vacancy factor of 10% for office and antenna commercial income given the current leases in place and the historical performance of the project. Please see waiver request.

Historical, Appraisal Conclusion (Restricted, As Renovated) and underwritten operations at the Project is summarized below:

	Operating Statement 2012		Operating Statement 2013		Operating Statement 2014 (10 Mos Annualized)		April YTD 2015 Annualized		Borrower's Budget 2015		Appraisal Conclusion (Rest. Renovated)		Lender's Underwriting	
	Total	PU/Yr.	Total	PU/Yr	Total	PU/Yr	Total	PU/Yr	Total	PU/Yr.	Total	PU/Yr	Total	PU/Yr.
Income							4							
Gross Potential Rent	1,498,465	7,492	1,579,809	7,899	1,590,466	7,952	1,823,082	9,115	2,543,674	12,718	2,544,696	12,723	2,544,696	12,723
Less: Vacancy	(36,744)	2.45%	(18,273)	1.16%	(29,347)	1.85%	(54,945)	3.01%	(127,184)	5.00%	(127,235)	5.0%	(127,235)	5.0%
Less: Bad Debt	(3,219)	0.21%	(3,427)	0.22%	634	-0.04%	-	0.00%		0.00%	-	0.0%	-	0.0%
Net Rental Income	1,458,502	7,293	1,558,109	7,791	1,561,753	7,809	1,768,137	8,841	2,416,490	12,082	2,417,461	12,087	2,417,461	12,087
Other Income:														
Laundry/Vending Income	10,000	50	10,000	50	10,000	50	-	-	9,500	48	9,500	48	9,500	48
Parking (open)	30,536	153	33,891	169	-	-	38,127	191	37,620	188	34,200	171	34,200	171
Tenant Fees	4,015	20	5,829	29	7,454	37	6,297	31	3,986	20		-	3,986	20
Miscellaneous Income	1,605	8	10,746	54	-	-	-	-	-	-		-	-	-
Total Other Income	46,156	231	60,466	302	17,454	87	44,424	222	51,106	256	43,700	219	47,686	238
Commercial Income:														
Commercial - Potential Rent	183,261	916	192,174	961	217,789		179,412	897	182,709	914	228,232	1,141	204,000	1,020
Commercial - Vacancy	-	-	-	-	-	-	-	-	(9,135)	(46)	(45,646)	(228)	(20,400)	10%
Effective Commercial Income	183,261	916	192,174	961	217,789	1,089	179,412	897	173,574	868	182,586	913	183,600	918
Effective Gross Income	1,687,919	7,523	1,810,749	8,093	1,796,996	7,896	1,991,973	9,960	2,641,170	12,338	2,643,747	12,306	2,648,747	12,326
Expenses		PU/Yr.		PU/Yr.		PU/Yr.		PU/Yr.		PU/Yr.		PU/Yr.		PU/Yr.
Management (%EGI)	120,000	7.11%	120,000	6.63%	120,000	6.68%	114,813	5.76%	132,144	5.00%	132,187	5.00%	132,437	5.00%
Administration	65,928	330	55,205	276	63,392	317	24,573	123	45,000	225	60,000	300	60,000	300
Payroll	243,045	1,215	216,161	1,081	239,247	1,196	229,980	1,150	288,378	1,442	231,250	1,156	288,378	1,442
Utilities (incl Trash Removal)	229,668	1,148	298,303	1,492	303,713	1,519	319,227	1,596	256,210	1,281	137,103	686	197,644	988
Water/Sewer	61,812	309	51,951	260	50,801	254	21,720	109	61,886	309	48,545	243	52,000	260
Repair & Maintenance	222,440	1,112	241,040	1,205	214,672	1,073	196,182	981	154,104	771	160,000	800	160,000	800
Insurance	34,013	170	31,656	158	32,694	163	29,000	145	71,143	356	40,000	200	71,143	356
R.E. Taxes	52,848	264	60,851	304	66,443	332	206,509	1,033	55,000	275	55,000	275	55,000	275
Subtotal	1,029,754	5,149	1,075,167	5,376	1,090,962	5,455	1,142,004	5,710	1,063,865	5,319	864,085	4,320	1,016,602	5,083
Capital Impr./Replacement Res.	90,000	450	90,000	450	90,000	450	90,000	450	60,000	300	50,000	250	90,000	450
Total Expenses	1,119,754	5,599	1,165,167	5,826	1,180,962	5,905	1,232,004	6,160	1,123,865	5,619	914,085	4,570	1,106,602	5,533
% of EGI		66%		64%		66%		62%		43%		35%		42%
Net Operating Income	568,165	1,925	645,582	2,267	616,034	1,991	759,969	3,800	1,517,305	6,719	1,729,662	7,735	1,542,145	6,793

Note: For comparison purposes, the underwriters concluded replacement reserves were included in the historical presentation. 2015 Real Estate taxes are annualized from four months of operations and does not reflect the tax abatement.

Audited financial statements were available for 2012 and 2013. For 2014, the only financial statements available were for the ten months ending October 31, 2014. According to the prior owner, these financials were not prepared for the year due to the project sale in December 2014. Please see Waiver Requests.

A detailed categorical explanation of the appraisers and underwriter's conclusion is presented below.

Management Fees: The Project management fee will be set at 5% of net revenue as presented in the Management Agreement.

Administration (including Advertising): Comparables reported advertising ranging from $24 to $113 per unit. Historically, the Subject's advertising expenses ranged from $10 to $43 per unit. Comparables reported administration ranging from $305 to $692 per unit. Historically, the Subject's administration expenses ranged from $244 to $315 per unit. For both Administration and Advertising, the appraiser concluded at $300 per unit, with heavy weighting on historical levels. The underwriter concurred with the appraiser for both advertising and administration. This conclusion also accounts for the sponsor's experience in managing affordable housing transactions, and is approximately $70 per unit higher than the sponsor's budget.

Payroll: Comparables range from $867 to $1,302. Historically, the project's payroll expense has ranged from $1,081 to $1,215. The appraiser estimated a payroll schedule and costs (excluding benefits and taxes) of $185,000 or $925 per unit. The underwriter's conclusion is based on the sponsor's budgeted amount of $1,221 per unit plus workers comp, taxes and benefits.

Payroll Schedule	Total	Per Unit
Manager	$ 41,916	
Assistant Manager	$ 29,744	
Maintenance (2 FTE)	$ 115,267	
Security	$ 57,200	
	$ 244,127	$ 1,221
Workman's Comp & Benefits	$ 44,251	18%
Total Payroll	**$ 288,378**	$ 1,442

Repairs and Maintenance: This category includes decorating, repairs, maintenance, exterminating, grounds, and elevator expense. Comparables (excluding elevator expense) reported repairs and maintenance ranging from $148 to $836 per unit. Historically, the Subject's maintenance and repair expenses (excluding elevator) ranged from ~$1,000 to ~$1,100 per unit. The underwriter believes that these expenses should materially decrease from historical levels due not only to the benefits of the renovation but also to the utilization of the replacement reserve for eligible capital expenditures. Including elevator expense of $100 per unit (which is consistent historically), the developer has estimated a total Repairs and Maintenance expense of $771 per unit post renovation. The appraiser concluded at $800 per unit. The underwriter agreed with the appraiser's conclusion.

Utilities: This category includes gas, electricity, water, sewer, and trash removal. The landlord is responsible for all utilities including tenant's personal electricity use.

- Electric: Comparables reported a range of $591 to $1,520 per unit. Historically, the project electric expense has ranged from $1,111 to $1,519. The appraiser concluded to the As Is scenario of $1,400 per unit or $280,000. As part of the renovation the sponsor proposes several energy savings measures including insulation, sealing, VRF HVAC units, lighting, and gas conversions (dryers, heating coils, common area hot water heater). An energy study was completed (a copy of which may be found in the addenda of the appraisal), which indicates electricity savings of approximately $160,541. As a result, the appraiser concluded electricity expense at $119,459, or $597/unit. The underwriter discounted the projected energy savings and concluded at $180,000 or $900/unit. This underwriting represents ~60% of the projected energy savings.
- Gas: As part of the renovation, natural gas will be installed in the Project. Gas will be supplied for the new dryers, gas coils in the HVAC, and common area hot water heater. Based on the energy study, these expenses will total $2,644/year, or $13/unit, which was also utilized by the underwriter.
- Water / Sewer: Comparables reported a range of $67 to $1,181 per unit. Historically, the range has been $254 to $309. The appraiser concluded to an As Is water / sewer expense of $55,000 or $275 per unit. As part of the renovation, the project will realize water savings totaling approximately $6,455/year. As a result, the appraiser concluded water / sewer expense at $48,545 or $243/unit. The underwriter discounted the projected energy savings and concluded at $52,000 or $260/unit. This underwriting represents ~45% of the projected energy savings.
- Trash Removal: Comparables reported a range of $55 to $132 per unit. Historically, this expense has been +/- $37. The appraiser concluded to $15,000 or $75 per unit, which was also utilized by the underwriter.

Insurance: Comparables reported insurance expense ranging from $188 to $432 per unit. Historically, the Subject's insurance costs ranged from $158 to $170 per unit. A recent insurance invoice for the project indicated a compliant insurance coverage with a total cost of $19,546 or $181 per unit. The appraiser concluded at a trended level of $200 per unit with the sponsor budgeting for $356 per unit. This cost will be underwritten at this budgeted level.

Real Estate Taxes: The subject has qualified for a payment in lieu of taxes (PILOT), which is anticipated to run the full term of the mortgage. Please see the draft agreement with Baltimore County (Payments in Lieu of Taxes) in the application. The appraiser and underwriter have utilized the terms of the PILOT for their conclusion equal to $275 per unit per year in year one. As mentioned above, the payments do escalate at 3% annually which is incorporated in the NOI sensitivity review.

Replacement Reserve Deposits: The appraiser concluded at $250 per unit annually based on typical comparable levels. The underwriter reviewed the AEC engineer analysis and concluded to a level of $450/unit annually with no escalators.

A summary of the appraiser's conclusions as compared to underwritten conclusion used for Criteria 5 loan constraint (Restricted – Renovated) is as follows:

	Appraiser's Conclusions				Underwritten - Rest.	
	Unrestricted-As Is		Restricted-Renovated		Renovated	
	Dollar	Per unit	Dollar	Per unit	Dollar	Per unit
Residential Rental Income	$2,628,000	$13,140	$2,544,696	$12,723	$2,544,696	$12,723
Other Income	$46,000	$230	$46,000	$230	$50,196	$251
	$2,674,000	$13,370	$2,590,696	$12,953	$2,594,892	$12,974
Vacancy	-$133,700	-5.00%	-$129,535	-5.00%	-$129,745	5.00%
	$2,540,300	$12,702	$2,461,161	$12,306	$2,465,147	$12,975
Commerical Income	$242,832	$1,214	$228,232	$1,141	$204,000	$12,975
Vacancy	-$48,566	-20.00%	-$45,646	-20.00%	-$20,400	-10.00%
	$194,266	$971	$182,586	$913	$183,600	$12,974
Effective Gross Income	$2,734,566	$13,673	$2,643,747	$13,219	$2,648,747	$12,974
Operating Expenses						
General and Administrative	$70,000	$350	$60,000	$300	$60,000	$300
Management	$109,383	$547	$132,187	$661	$132,437	$662
Utilities	$350,000	$1,750	$185,648	$928	$249,644	$1,248
Payroll, Taxes & Benefits	$231,250	$1,156	$231,250	$1,156	$288,378	$1,442
Repairs & Maintenance	$160,000	$800	$160,000	$800	$160,000	$800
Insurance	$40,000	$200	$40,000	$200	$71,143	$356
Real Estate Taxes	$214,000	$1,070	$55,000	$275	$55,000	$275
Replacement Reserves	$50,000	$250	$50,000	$250	$90,000	$450
	$1,224,633	$6,123	$914,085	$4,570	$1,106,602	$5,533
Net Operating Income	$1,509,933	$7,550	$1,729,662	$8,648	$1,542,145	$7,711

As Repaired Market Valuation: In determining the as-repaired market valuation for the Project, the appraiser used the Cost Approach, Income Approach, and Sales Comparison Approach. For the Cost Approach, the appraiser included an As-Complete Cost analysis and concluded to a value of $24,550,000. For the As-Is Value Income Approach, the appraiser valued the property based on a capitalization of the concluded as-is market net operating income for the Project of $1,509,933. Utilizing a 6.25% market based cap rate, the concluded Income Capitalization Approach value was $24,160,000. For the Sales Comparison Approach, the appraiser surveyed the market for sales of similar sites, and utilized five as-is sales with a price range of $108,173 per unit to $125,685 per unit. Adjustments were considered for location, site/view, design/appeal, quality of construction, age, and building size/units offered. The appraiser concluded at $115,000 per unit or $23,000,000 (rounded) for the Project. Note that the project was last purchased for $19,855,000 in December 2014.

Land Valuation – The appraiser surveyed the market for sales of similar sites and adjusted for their differences as compared to the subject to provide a value indication for the land. The appraiser analyzed four land sales and concluded to an unrestricted land value of $6,800,000. The sales comparable indicate a range of $37,845 to $42,000 per unit and generally reflect differences in location, zoning/density, and size/number of units.

Replacement Cost – The appraiser calculated the replacement cost value based on (i) hard cost derived from the Swift Estimator from Marshall Valuation Service, (ii) indirect construction costs, (iii) entrepreneurial incentive, (iv) depreciation, and (v) land value. As mentioned above, this cost approach resulted in a replacement cost value of $24,550,000.

The HUD eligible replacement cost totals approximately $37,000,000, including $19,855,162 for As Is Value. Such costs were reviewed by the cost analyst at D3G. The contractor has taken into consideration the current Davis Bacon Commercial Wage scale for completing the form HUD-2328. The construction period is 12 months and the owner and general contractor intend to use a lump sum contract. D3G reviewed the architectural documents and construction costs for compliance with applicable codes and HUD regulations.

Initial Operating Deficit ("IOD") – The appraiser concluded that an operating deficit would not be incurred during the rehabilitation period. This is based on the fact that the subject property is currently over 90 percent occupied and the proposed rehabilitation will be done primarily with tenants in place. As indicated in the relocation plan, the scope of the rehab is such that the only tenants who will need to be relocated are tenants who occupied units (at most, 10 units) which will be undergoing improvements to conform to UFAS accessibility requirements. It is likely that the tenants impacted by these improvements will be re-located to either renovated or non-renovated units within the project. . It should also be noted that the syndicator is requiring the funding of an operating and debt service reserve totaling +/- $815,000. See Section 8.13F of the MAP Guide.

Architecture & Engineering

See 504 Discussion

Environmental

<u>Radon</u>
The subject is located within radon Zone 1. As part of the Phase I testing, readings were taken from 25 areas according to HUD guidelines at the project and all results were 0.4 pCi/L or lower, below the action level of 4.0 pCi/L. No further testing or action is required.

<u>LBP</u>
A report from the Legin Group dated 6/19/2006 was provided. The evaluation found no lead based paint or lead based paint hazards at the property.

<u>Asbestos</u>
At the time of the Phase I assessment, an asbestos screening was performed. Laboratory analysis found asbestos containing material in 12x12 beige floor tile located in the commercial space and trash room located on each floor. The Phase I report has recommended the development and implementation of an O&M program, which is included with the application.

<u>Underground Storage Tank</u>
The Phase I assessment identified the presence of a 550 gallon underground storage tank used to store diesel fuel for an emergency generator as a possible REC. The tank is associated with one Oil Control Program Leaking Storage Tank Case opened 9/26/2002. A Phase II report was completed by Nutshell Enterprises on 4/11/2003, which determined the UST has been abandoned-in-place. The Phase II subsurface investigation included the installation of six soil borings to a depth of 12 feet. No groundwater was encountered during the boring installation and soil sample analysis was below detection limits of 100 parts per billion and 500 parts per billion. Based on the Phase II data, the Maryland Department of the

Environment Oil Control Program required no further investigation or corrective action at the site. The agency closed the case on 9/26/2003 and documentation of this decision is provided with the application.

A limited Phase II subsurface investigation was recommended by Connor to screen for heavy metals, volatile organic compounds and petroleum constituents as the 2003 Phase II indicated confirmed that contamination was previously associated with the UST. In addition, the 2003 Phase II performed sample testing only on one side of the tank. Soil gas samples were collected on the south (down-gradient) and north (cross-gradient) sides of the UST on June 5, 2014 by Foundation Test Group and analyzed by a Maryland certified analytical laboratory in accordance with EPA method TO-15. It was determined that no evidence exists for the likelihood of unacceptable vapor intrusion at the site due to contamination of the soil surrounding the closed UST. Foundation Test Group concluded a Vapor Encroachment Condition is not likely to exist at the property.

Above Ground Storage Tank

The Project currently utilizes one 275-gallon AST of diesel for use with the emergency generator. The tank is pad mounted along the eastern exterior structure wall, immediately adjacent to where the generator is located in the basement. Based on Federal Flammable and Combustible Liquids Code (NFPA 30), the minimum distance from buildings for this AST is 5 feet. Connor recommends that the tank be moved 5 feet from the wall, have a sign placard indicating the tank size and contents, have a secondary containment solution implemented, and have a barrier wall installed around the entire system. After a study of the alternatives to meet Connor's recommendations, the sponsor has decided to remove this tank and replace it with natural gas and a new generator.

Oak Grove Capital has reviewed the environmental reports described above and agrees with the environmental professional's conclusions and recommendations.

Additional Comments:

A 223(f) Pilot Concept Meeting was held with the Boston and Baltimore HUD offices on August 4, 2014. An invitation to submit a Firm Application from Maurice Berry and Robert Iber was received on August 29, 2014. The application under the 223(f) Pilot was submitted to HUD-Boston in September 25, 2014 for consideration. Due to processing delays and changes required by the Maryland CDA during their 2014 and 2015 review process, a revised and comprehensive 223(f) Pilot application could not be prepared and submitted to HUD on a timely basis. As a result, on April 9, 2015, the 223(f) Pilot application was rejected by HUD-Boston. On or around the time of the rejection of the application, it also became evident that based on revised cost estimates of the development, the Project would not qualify for the 223(f) Pilot in that the repair costs would exceed the $40,000 per unit limit. After correspondence with HUD-Baltimore and HUD-Boston, it was determined that the submission of a 221(d)(4) application should go directly to HUD-Baltimore and that a second concept meeting would not be required.

Special Conditions to the Firm Commitment/Comments:

The HUD Commitment should include as conditions for closing, (i) receipt of acceptable commitment from the State of Maryland for the tax exempt bonds and LIHTC equity, (ii) an acceptable commitment from the LIHTC equity syndicator for the purchase of the housing tax credits, (iii) submission of a commitment letter for grants/loans from the State of Maryland, and (iv) receipt of updated financial statements and work-in-progress schedules from GC, the general contractor, demonstrating that they meet the 5% working capital test.