June 12, 2018

Mr. Kevin McCarthy
Vice President
Norstar Development USA, LP
733 Broadway
Albany, NY 12207

Re: **Swift Lane Limited Dividend Housing Association Limited Partnership**
Ann Arbor, Michigan

Dear Mr. McCarthy:

We at Regions Affordable Housing, LLC ("RAH") are pleased to propose the following business terms set forth in this letter of intent pursuant to which RAH will provide equity capital for the purchase of the limited partner interest in Swift Lane Limited Housing Dividend Association Limited Partnership ("SLLP"), a Michigan limited partnership (the "Partnership"). RAH or an assignee (the "Investor Partner") will acquire a 99.98% limited partner interest, and Sterling Corporate Services LLC (the "Special Investor Partner"), will retain a 0.01% Special Investor Partner interest in the Partnership. The basic business terms outlined herein will be incorporated into an amended and restated limited partnership agreement (the "Amended LPA").

1. Apartment Development Information and Parties Involved

(a) Swift Lane Apartments (the "Apartment Development") will consist of the new construction of 64 units for family occupancy on two separate sites. The Apartment Development will consist of five new buildings located 3401-3405 and 3451-3457 Platt Road and 1520 State Street, the City of Ann Arbor, Washtenaw County, Michigan. 100% of the units will be occupied in compliance with the federal Low-Income Housing Tax Credit ("LIHTC") requirements of Section 42 of the Internal Revenue Code. Forty-four (44) units will have Section 8 Project Based Vouchers ("PBV") thought the HUD Rental Assistance Demonstration Program ("RAD") and the remainder will have PBV through the Ann Arbor Housing Commission ("AAHC"), so that 100% of the units will have rent subsidies for a period of no less than 15-years.

(b) The parties involved with the Apartment Development are as follows:

(i) **Partnership**: Swift Lane Limited Housing Dividend Association Limited Partnership ("SLLP")

(ii) **General Partner**: Swift Lane GP, LLC, whose controlling member is the Ann Arbor Housing Development Corporation, and entity fully-controlled by AAHC (50.10%) and Norstar Swift Lane, Inc,, a fully-controlled affiliate of Norstar Development USA, L.P. ("NDUSA") (49.90%)

(iii) **Developer**: NDUSA and a fully owned affiliate of AAHC ("AAHC Developer")

(iv) **Guarantor**: Subject to RAH's review and approval, Norstar Development USA, LP, and AAHC and the AAHC Developer (collectively the AAHC Gaurantors") shall provide guarantees as shown in Section 7 of this LOI.

2. **Debt Sources:** As a condition to RAH funding its equity capital contributions, the General Partner will deliver the loan commitments and/or financing sources described in (a) – (d) below. The terms of these loans are subject to RAH's consent and all loans will be made from the lender(s) to the Partnership.

(a) Construction Loan:

Loan Type:	Conventional
Lender:	TBD lender approved by RAH
Proposed Amount:	Construction: $12,310,000
Interest Rate:	Construction: Variable (5.0% estimated
Term:	Construction: 33 months
Amortization:	N/A
Type:	Recourse
Collateral:	First mortgage lien
**Note:*	*Regions Bank would like the opportunity to bid on the construction loan*

(b) First Permanent Loan:

Loan Type:	Conventional Loan
Lender:	To-be-determined lender acceptable to RAH
Proposed Amount:	$1,900,000
Interest Rate:	5.50% fixed
Term:	15 years
Amortization:	Principal and interest due at maturity over a 30-year term
Collateral:	First Mortgage Lien
Type:	Non-recourse except for environmental indemnification and Lender's standard carve-outs which shall be recourse.

(c) Second Permanent Loan:

Loan Type:	Sponsor Loan
Lender:	AAHC
Proposed Amount:	$1,712,109
Interest Rate:	0%
Term:	Construction period + 30 years
Amortization:	N/A. Interest-only payments paid from excess available cash flow. Principal and accrued interest due at maturity with balance accruing at the AFR (Estimated at 2.9%).
Collateral:	Second Mortgage Lien
Type:	Non-recourse

(d) Third Permanent Loan:

Loan Type:	Federal Home Bank Loan
Lender:	AAHC
Proposed Amount:	$650,000
Interest Rate:	0%
Term:	Construction period + 30 years

Amortization:	N/A. Interest-only payments paid from excess available cash flow. Principal and accrued interest due at maturity with balance accruing at the AFR(Estimated at 2.9%).
Collateral:	Third Mortgage Lien
Type:	Non-recourse

3. **LIHTC** The Partnership has been awarded a reservation of LIHTC in the annual amount of $1,487,000 from the Michigan State Housing Development Authority ("MSHDA" or the "State Agency"). The Projected Tax Credits will be available to the Partnership as follows:

Calendar Year 2020	$ 205,237
Calendar Year 2021	$1,469,574
Calendar Year 2022 - 29	$1,487,000
Calendar Year 2030	$1,281,763
Calendar Year 2031	$ 17,426

The project is expected to close construction financing and start construction on or about October 1, 2018; to complete construction and place in service all units of the Apartment Development by August 1, 2020; and to cause the Apartment Development to be occupied by a sufficient number of qualified tenants by February 28, 2021, so as to entitle the Partnership to receive the Projected LIHTC for 100% of the units.

4. **Purchase Price** RAH will acquire its Investor Partner interest in the Partnership for a total equity capital contribution of $13,677,664, which is based on the Apartment Development receiving the LIHTC described in paragraph 3 of this letter of intent and represents a price per LIHTC of $0.92. RAH's equity capital contributions will be paid in installments upon the achievement of certain benchmark conditions.

5. **Equity Capital Contributions**

(a) RAH will fund its equity capital contributions pursuant to the schedule below. A summary of the conditions to the payment of the installments is included herein:

Conditions	% of Equity	Amount
i) Upon the later of (a) execution of the Amended LPA, (b) receipt and approval of all due diligence items on RAH's due diligence checklist, (c) receipt of commitments for funding of the loan sources described in paragraph 2, and (d) closing and initial funding of the construction loan.	15.0%	$2,051,650
ii) Upon the later of: (a) Construction Completion, as evidenced by the documentation to be set forth in the Amended LPA, and (b) October 1, 2020.	25%	$3,419,416
iv) Upon the later of (a) achievement of 100% tax credit eligible occupancy as evidenced by RAH's receipt and approval of a 100% Lease-Up Report, (b) Final Closing, including permanent loan conversion, (c) achievement of a 1.15x debt service coverage ratio for three (3) consecutive months calculated based on the mandatory permanent debt service, and (d) July 1, 2021.	55%	$7,522,715

v) Upon the later of: receipt of (a) the IRS Form 8609, (b) the recorded Regulatory Agreement	5.0% (Less $50,000)	$633,883
vi) Upon receipt of the Federal Tax Return for the Partnership for the year in which the first tax credits are first claimed.		$50,000
Total:	**100%**	**$13,677,664**

(b) Adjustment of Equity Capital Contributions. If the actual LIHTC allocated by the State Agency on IRS form(s) 8609 (the "Maximum Tax Credit") is more or less than the Projected LIHTC for the credit period (as a result of any circumstance other than a Tax Credit Recapture Event, as defined below), the equity capital contribution shall be adjusted in proportion to the increase or decrease in actual LIHTC. In no event will the additional equity capital contribution of RAH set forth in this paragraph be more than 5% of RAH's total equity capital contribution.

6. **Fees and Compensation.**

(a) Development Services Fee. The Developer will earn a developer fee on or before construction completion in an amount expected to be $1,500,000, which amount shall not exceed the fee permitted by the State Agency. The cash portion of the developer services fee shall be paid as follows: up to 25% of the cash portion paid at initial closing and the remainder from capital contributions after payment of all other third-party development costs. If the proceeds of the Apartment Development budget are not sufficient to pay the developer fee, the developer fee will be deferred without interest and be paid from net cash flow in accordance with paragraph 9. The General Partner and AAHC Guarantors will guarantee payment of any portion of the deferred developer fee remaining unpaid by the 13th anniversary of the commencement of the compliance period.

(b) Property Management Fee. The property management fee will not exceed 6% of the gross rent collected. The terms of the property management agreement are subject to the prior approval of RAH.

(c) Reporting Services Fee. The Partnership will pay Regions Affordable Housing, LLC an annual reporting services fee in an amount equal to $5,000, payable from available cash flow. The guaranteed reporting services fee, which shall be cumulative, will be paid annually commencing the year the Apartment Development is placed in service, and shall increase by 3% annually.

(d) Incentive Management Fee. An incentive management fee will be payable to the General Partner on an annual basis in an amount equal to 90% of net cash flow after payment of the items described in paragraph 9.

(e) Legal and Due Diligence Fees. The Partnership will reimburse RAH $35,000 toward the costs incurred by RAH in conducting its legal and due diligence review and obtaining a tax opinion.

7. **Managing Member Guarantees and Obligations:** The Guarantors will guarantee certain of the obligations of the Managing Member and the Developer of which the key guarantees are summarized below and detailed in the Amended OA.

(a) Turnkey Completion. The Managing Member will guarantee the turnkey Construction Completion of the Apartment Development, achievement of Stabilized Occupancy, 100% tax credit eligibility, and Final Closing for a fixed turnkey price equal to the sources of permanent debt, equity capital, and the maximum development services fee permitted to be deferred, such that any cost overruns will be borne solely by the Managing Member. This guarantee will be provided by Norstar

Development USA, LP. However, operating deficits during this period will be an obligation of AAHC Guarantors.

(b) Operating Deficits. If the Apartment Development's operating revenues are insufficient to pay debt service and all operating expenses (including all required reserve deposits and property management fees), then these operating deficits shall be funded first by deferring payment of fees due to any party affiliated with the Managing Member, then from the Operating Reserve, and then from operating deficit loans to be made by the Managing Member (Operating Deficit Loans), provided that the Managing Member shall not be obligated to make operating deficit loans to the extent that at any one time, the total balance of such operating deficit loans exceeds an amount equal to the aggregate of six months of (a) operating expenses, (b) required replacement reserve deposits and (c) debt service). The foregoing obligation of the Managing Member to make Operating Deficit Loans shall end on the first date that the Apartment Development has maintained 1.15 debt service coverage for four consecutive quarters from and after the fourth anniversary of achieving Stabilized Occupancy (the "Seasoning Period") and provided that at the time of the termination of such guaranty, the operating reserve is fully funded to its original balance. The obligation of the MM to make Operating Deficit Loans shall be guaranteed by AAHC

(c) Maximum Tax Credit. If the actual Tax Credit allocated by the State Agency on IRS Form(s) 8609 (the "Maximum Tax Credit") is more or less than the Projected Tax Credit for the Credit Period (as a result of any circumstance other than a Tax Credit Recapture Event), the Capital Contribution shall be adjusted in proportion to the decrease in Tax Credits. Any amount of reduction of the Capital Contribution exceeding the aggregate amount of outstanding installments of Capital Contribution (the "Excess Adjustment") will be paid to the Investor Member as an Adjuster Fee. The Adjuster Fee shall include an amount sufficient to pay any federal, state and local income taxes owed by the Investor Member and/or its members attributable to the Adjuster Fee such that the Investor Member nets the amount of the Excess Adjustment. This guarantee will be provided by the AAHC Guarantors.

(d) Year One Timing. If in Year One the actual Tax Credit is less than the Projected Tax Credit for Year One, the Capital Contribution shall be reduced by 70 cents for each dollar of shortfall available to the Investor Member. This guarantee will be provided by Norstar Development USA, LP. However, shortfalls as a result of failure to lease-up shall be an obligation of the AAHC Guarantors.

(e) Tax Credit Reduction ("TCRA"). Other than Year One and in all subsequent years during the compliance period, if an event causing a TCRA shall occur (excluding an adjustment resulting from changes in the Internal Revenue Code); the Capital Contribution shall be reduced dollar for dollar by the amount of TCRA. This guarantee will be provided by the AAHC Guarantors.

(f) Tax Credit Recapture Event. If at any time during the Compliance Period a Tax Credit Recapture Event pursuant to Internal Revenue Code Section 42(j) occurs, the Capital Contribution shall be reduced dollar for dollar by the amount of the Tax Credit Recapture Amount. This guarantee will be provided by the AAHC Guarantors.

(g) Repurchase: The Managing Member, at the request of the RAH, will repurchase the interest of the RAH upon the occurrence of certain major adverse events that will be described in detail in the Amended OA. This guarantee will be provided by the AAHC Guarantors except that to the extent that these events are construction related or are attributed to the failure to provide a valid cost certification, this guarantee will be provided by Norstar Development USA, LP.

8. Reserves

(a) Replacement Reserve. The Partnership shall establish an annual Replacement Reserve, and make monthly contributions in an amount of $300 per dwelling unit per annum, and increase annually at a rate of 3%. The Replacement Reserve shall be funded in a segregated Partnership account, in a financial institution approved by RAH. The Replacement Reserve shall be administered in accordance with the policies and procedures of the permanent lender and/or the State Agency. Withdrawals from the Replacement Reserve will be subject to RAH consent.

(b) Operating Reserve. The Partnership shall fund and maintain an Operating Reserve, upon permanent loan conversion, in the amount of six months of hard debt service, operating expenses and reserves (currently estimated at $297,448). The Operating Reserve shall be funded and maintained in a segregated Partnership account, in a financial institution approved by RAH. Withdrawals from the Operating Reserve will be subject to RAH consent.

9. Sharing of Tax and Cash Benefits

(a) During Apartment Development Operations. All tax profits, losses, and tax credits arising prior to the sale of the Apartment Development will be allocated 99.98% to the Investor Partner, 0.01% to the General Partner, and 0.01% to the Special Investor Partner.

(b) Net Cash flow. Distribution of net cash flow (operating revenues remaining after the payment of operating expenses, debt service and satisfaction of reserve funding requirements) will be made as follows:

(i) to payment of the reporting services fee as defined in section 6(c);

(ii) to payment of any unpaid tax credit shortfall;

(iii) to replenishment of the Operating Reserve;

(iv) to payment of any deferred developer fee;

(v) 90% of net cash flow to the payment of a) any operating deficit loans; and b) the incentive management fee; and

(vi) the remaining balance, 99.98% to the Investor Partner, 0.01% to the General Partner and 0.01% to the Special Investor Partner.

(c) Distribution upon Sale, Liquidation, or Refinance. Taxable profits from a sale of the Apartment Development will be allocated among the partners identified in the Partnership Agreement to adjust capital accounts as required by the Internal Revenue Code and then in accordance with sale proceeds distributions. Refinancing and sale proceeds, after repayment of partner debts (including any outstanding guaranteed reporting services fee), transaction costs and creation of prudent reserves, will be distributed:

(i) to pay any unpaid tax credit shortfall;

(ii) to repay any outstanding deferred developer fee;

(iii) to payment of a capital transaction fee equal to 2% of the gross refinancing or sale proceeds that will be distributed 50% to RAH and 50% to the General Partner;

(iv) to outstanding operating deficit loans; and

(v) the balance will be distributed 9.99% to the Investor Partner, 90.00% to the

General Partner and 0.01% to the Special Investor Partner.

10. Right of First Refusal Option.

AAHC shall have a right of first refusal in accordance with Section 42(i)(7) of the IRS to purchase the Apartment Development and the Investor Member's interest in the Company after the close of the compliance period for a minimum purchase price equal to the sum of: (a) the principal amount of outstanding indebtedness secured by the Apartment Development; (b) all federal, state and local taxes that the Investment Member and Managing Member would incur as a result of such sale; and (c) any accrued and unpaid fees due to RAH.

11. Reporting Requirements / Insurance

(a) Reporting Requirements. The General Partner shall cause to be furnished to the Investor Partner financial reports for the Partnership in the form and as described in the Amended LPA on a quarterly basis except for rent roll, tenant certification and re-certifications, which shall be furnished on a monthly basis. The General Partner shall furnish year-end audited financial statements and tax returns for the Partnership.

(b) Insurance. The Partnership shall obtain: (i) builder's risk insurance; (ii) all-risk casualty insurance in an amount not less than the full replacement cost of the Apartment Development; and liability insurance of not less than $1,000,000 per occurrence, $2,000,000 in the aggregate, and $5,000,000 in an umbrella policy. The Investor Partner and its affiliates shall be named as additional insureds (or loss payee, in the case of casualty insurance) on each policy.

(c) Tenant Certifications. The General Partner shall provide tenant income certification ("TIC") files to a consultant approved by RAH for review at the expense of the Partnership. Upon completion of the review, the consultant will furnish RAH with a report stating that 100% of the TICs are complete and have no outstanding issues ("100% Lease-up Report").

12. Additional Requirements

(a) The Managing Member will arrange for a fixed or guaranteed maximum price construction contract. Payment and performance bonds will be required.

(b) The Managing Member at the expense of the Company will deliver to RAH satisfactory third-party reports including an appraisal, market study, Phase I environmental site assessment (Phase II environmental report (if applicable), property condition report (if a rehabilitation project), engineer's plan and cost review and monthly construction monitoring reports by an engineer approved by RAH.

(c) The Managing Member's counsel will deliver to RAH a local law opinion satisfactory to RAH. RAH's counsel will prepare the tax opinion and the Managing Member agrees to cooperate to provide all necessary documentation requested by RAH's counsel.

(d) For the period of its guarantees, Norstar Development USA, LP shall demonstrate a new worth of $5,000,000 and a minimum liquidity of $1,000,000. For the period of its guarantees, the AAHC Guarantors shall maintain liquidity requirement in the amount of AAHC Developer's portion of the fee (but no less than $750,000). Notwithstanding anything else herein, the AAHC Guarantors guaranty obligation hereunder shall be limited to the AAHC Developer's portion of the fee.

(e) Prior to closing, the parties will agree on an operating statement, to be included in the Amended OA, wherein the operating expenses will be in conformance with the Investor Member's guidelines and shall demonstrate a minimum debt service coverage ratio of 1.15 throughout the tax credit compliance period using the approved project-based rent standards, annual growth assumptions, and vacancy and collection loss assumptions. Project based rent standards must not exceed the level of market rents in this location.

(f) Prior to closing, the project will enter into rent subsidy agreements that have a term of no less than 20-years.

(g) Note that the sponsor loan is considered to be related party debt and therefore will charge deferred interest at the AFR at the time of the closing. The FHLB loan will be a loan from the sponsor and will be treated similarly.

(h) Prior to closing, RAH will review an approved the Funding Analysis submitted to MSHDA for the project's inclusion under the Permanent Supportive Housing Category.

13. <u>Due Diligence and Closing</u>

The terms and conditions of this letter of intent are based on the accuracy of information you provided to RAH. Our proposal to make the investment described in this letter of intent is subject to the satisfactory completion of our due diligence review of the Apartment Development and the transaction, our mutual agreement on the terms of the Amended LPA and formal approval by the Regions Affordable Housing investment group.

14. <u>Confidentiality</u>

You agree to keep the terms and conditions contained in this letter of intent confidential and not disclose the terms to any third party (other than the State Agency, accountants and attorneys of the Partnership) without the express prior written approval of RAH.

This letter of intent serves as an outline of the principal terms and conditions of the proposed equity investment by RAH, and is subject to (i) the receipt and satisfactory review of all due diligence materials by RAH; and (ii) change or withdrawal, if in RAH's judgement, changes in market conditions and/or investor requirements would adversely affect the transaction. RAH cannot extend a legally binding commitment until formal investment approval has been obtained.

We look forward to working with you on this and future projects. Please feel free to call me at any time.

Very truly yours,

<u>REGIONS AFFORDABLE HOUSING, LLC</u>

By: Dominick Buffa
Senior Vice President

The foregoing is hereby accepted, agreed to and confirmed the_______day of________________, 2018.

SWIFT LANE LIMITED DIVIDEND HOUSING ASSOCIATION LIMITED PARTNERSHIP

By: Swift Lane GP, LLC
Its General Partner

By: Jennifer Hall

Name: Jennifer Hall

Title: Manager