NORSTAR

TO:	Jennifer Hall, Executive Director Ann Arbor Housing Commission
FROM:	Richard Higgins, Norstar
RE:	West Arbor: Equity and Debt Recommendations
DATE:	March 18, 2015
CC:	Rochelle Lento, Easq., Dykema Lori Harris, Norstar Kevin McCarthy, Norstar Kris Higgins, Norstar Ted Rozeboom, Esq., Loomis

Following MSHDA's notice of the 9% Low Income Housing Tax Credit ("LIHTC") allocation for the West Arbor project, Norstar solicited proposals from the financial markets to provide tax credit equity, construction and permanent debt financing, respectively, for the project. The following will provide a summary of the bidding process to date.

LIHTC EQUITY

Fourteen LIHTC syndicators were invited to provide equity proposals including: RBC Capital, Stratford Capital Group, First Sterling, The Richman Group, Red Stone Equity Partners, Great Lakes Capital Fund, Goldman Sachs, National Equity Fund, Inc., Michel Associates, Raymond James, KeyBank, M&T, Enterprise and Bank of America.

As outlined in the attached Solicitation Results Chart provided for the project, Norstar received seven Letters of Interest ("LOIs") offering varying terms. Each of the LOIs that was received is attached to this memo. Norstar evaluated each submission on various key issues which included, but were not limited to, credit price, guaranty requirements (especially the operating deficit guaranty), timing of the delivery of tax credits and the required size of the operating reserve. Each of these key issues is outlined below for your reference:

Credit Price: this is the amount to be paid for each LIHTC by the investor. The higher the price to be paid per credit results in a greater sum of gross equity available to the project. We received offers that ranged from \$0.95 up to \$1.028 per credit – please see the attached chart for a summary of all tax credit bids. However, the prices must be reduced to the extent the investor requires payment of due diligence fees.

Guaranty Requirements: this relates to the requirements placed on Ann Arbor Housing Commission and Norstar to provide financial-related assurances to the investor. These requirements typically relate to construction completion, operating deficits, and LIHTC shortfalls. The operating deficit guaranty was of particular interest during this review process, as the details of this guaranty varied amongst the bidders (e.g. three years vs. five years, monetary sizing).

Operating Reserve: this is the amount required to be capitalized for the project in the event that it was unable to meet any of its financial operating costs. This will provide comfort to the investor and permanent lender that there is an established source created in order to meet potential operating shortfalls. Please be advised that the development proforma that was featured in this bidding process contemplated an operating reserve in the amount of $120,000. Offers and counter-offers ranged from $95,000 to $192,770.

Projected Delivery of Tax Credits: this was an important factor to consider, as some investors required a bullish delivery timeframe in 2016, whereby others less so (e.g. lesser or no credits in 2016).

Norstar has reviewed all seven LIHTC bids and have narrowed the selection down to two: Bank of America ("BOA") and National Equity Fund, Inc. ("NEF"). Below is a summary of the primary terms of each:

Review of BOA Submission

- Pricing: BOA is willing to pay $1.02 per credit, and charge no due diligence fees. The total equity pay-in is $9,036,295. The original development proforma submitted in the MSHDA application assumed a price of $0.895 per credit.

- Guaranty Requirements: BOA's proposed guaranty structure is outlined below:

    1. Net Worth/Liquidity: Norstar and AAHC, collectively, must maintain a net worth minimum of $3,000,000 and liquidity minimum of $1,000,000 (Norstar meets this condition so AAHC doesn't need to);

    2. Completion Guaranty: Norstar will guaranty lien-free completion of the development;

    3. Development Deficit Guaranty: Norstar will guaranty payment of all development costs up to the later of 100% completion, 100%

qualification/lease-up and closing on permanent financing;

4. Operating Deficit Guaranty: Ann Arbor Housing Development Corporation ("AAHDC") will agree to fund any operating deficits that arise after the expiration of the Completion Guaranty and the Development Deficit Guaranty up to a maximum of $190,000. This guaranty will last for three years after the later of a) the expiration of the Completion Guaranty and the Development Deficit Guaranty and b) achievement of 1.15 DSC over a 12-month period. There will be a liquidity covenant of $450,000, which is the amount of the AAHC Developer Fee;

5. Repurchase Guaranty: Norstar and AAHC Developer will provide in accordance with the enumerated milestones therein;

6. Tax Credit Guaranty: Norstar and AAHC Developer will indemnify BOA against the potential loss of any tax credits due to compliance or foreclosure issues that may arise, post-completion;

- Operating Reserve: $150,000. This is slightly higher than what our MSHDA budget proposed ($120,000);

- Tax Credit Delivery: we are not obligated to deliver any credits to BOA in 2016, as the delivery schedule commences in 2017;

- Pay-In Schedule: BOA has proposed 65% of total equity to be paid in prior to/at 100% completion – 20% at the closing table and 45% upon construction of completion.

ISSUES

1. BOA is requesting that Norstar provide a foreclosure guaranty. Norstar might agree to this as language will be incorporated into the partnership agreement that will allow Norstar to cure any defaults made by the managing general partner;

2. BOA is requesting that Norstar provide a guaranty for post-stabilization tax credit adjusters – as Norstar does not have control over leasing and operations, this is a problem;

3. BOA is requesting that they be reimbursed by Norstar for the costs of any transaction expenses in the event that the deal doesn't close. Norstar objected

to this far-reaching request and countered to BOA that we would assume those costs only in the event that it was our fault that the deal didn't close. BOA did not accept this;

4. BOA does not specifically limit AAHC and AAHC Developer's liability to their earned developer fee.

Review of NEF Submission

- Pricing: NEF is willing to pay $1.028 per credit, but require $55,000 in due diligence costs. This credit price raises $9,104,511, less the $55,000 in fees, for a net equity pay-in of $9,049,511.

- Guaranty Requirements: NEF's proposed guaranty structure is outlined below:

    1. Development Completion Guaranty: Norstar and the General Partner will provide an unlimited guaranty of construction completion of the development, and will agree to pay any and all operating deficits until the project achieves Stabilized Occupancy;

    2. Operating Deficit Guaranty: AAHC and AAHDC will agree to fund any operating deficits that arise during the Operating Deficit Guaranty Period up to a maximum of $190,000. This guaranty will last for four years, commencing on the date of the achievement of Stabilized Occupancy. There will be a liquidity covenant of $350,000 during this period;

    3. Repurchase Guaranty: Norstar and AAHC will provide in accordance with the enumerated milestones therein;

    4. Permanent Loan Conversion Guaranty: Norstar and AAHC shall provide all funds necessary to bridge the funding gap in the event that the actual permanent loan is determined to be less than what is stated in the projections;

    5. Environmental Indemnification: this is the standard indemnification with respect to the presence of any hazardous substances on the project site;

    6. Service Guaranty: in the event the partnership is required to provide services to the tenants, and the costs of said services are not included in the projections, AAHC and General Partner shall guaranty that such services are provided at no cost to the project;

    7. Guaranty of General Partner Obligations: the AAHC shall guaranty the full performance of all of the obligations of the General Partner as referenced in the partnership agreement.

Generally, Norstar's guaranty obligations end at stabilization.

- Operating Reserve: $190,500. This is higher than what our MSHDA budget proposed ($120,000);

- Tax Credit Delivery: we would be obligated to deliver $160,507 in 2016 credits to NEF with full credits of $886,000 commencing in 2017;

- Pay-In Schedule: NEF has proposed 48% of total equity to be paid in prior to/at 100% completion – 15% at the closing table and 33% upon construction of completion.

Recommendation for Tax Credit Equity Investor

After careful review and consideration of the bids from BOA and NEF, Norstar is recommending the selection of NEF to provide the tax credit equity for the redevelopment. The decision essentially boils down to a consideration of the guaranty structure post-stabilization, as well as the failure to specifically limit AAHC's liability to its earned developer fee.

NORSTAR

Recommendation for Construction Lender

Norstar received bids for construction loan financing from four lenders: Bank of America, JPMorgan Chase, KeyBank and Huntington Bank. Each of these bids was closely reviewed, and copies of each are attached herein.

Norstar is recommending the selection of JPMorgan Chase to provide the construction debt for the redevelopment because (i) they provided the debt on Maple Towers and River Run, (ii) their terms are comparable to the others and (iii) most importantly, they will sponsor the application for AHP funds with the Federal Home Loan Bank of San Francisco.

Recommendation for Permanent Lender

Norstar received bids for permanent loan financing from two institutions: Cap Fund and the Community Development Trust. Copies of each are attached herein.

Norstar is recommending the selection of the CapFund to provide the permanent debt for the redevelopment because (i) the provided the permanent loan on Maple Towers and River Run, and (ii) as a Michigan not-for-profit, they are well-known and respected by MSHDA.

Please let us know if you have any questions or require additional information. We look forward to discussing this recommendation with you at your convenience.

Thank you.