SUPPLEMENTAL

BOARD MEETING OF FEBRUARY 16, 2012

J. Paul Oxer, Chair

TEXAS DEPARTMENT OF
HOUSING & COMMUNITY AFFAIRS
Building Homes. Strengthening Communities.

4a

Appeals:

10271 Hudson Manor
10279 Hudson Green

TEXAS DEPARTMENT OF HOUSING & COMMUNITY AFFAIRS
Building Homes. Strengthening Communities.

REAL ESTATE ANALYSIS
Housing Tax Credit Program
Underwriting Report Notice

Appeal Election Form 10271 Hudson Manor **Date Sent:** 2/08/2012

I am in receipt of my 2010 Underwriting report notice and have reviewed the Appeal Policy at 10TAC Section 50.17(b). I recognize that should I choose to file an appeal, I must file a formal appeal to the Executive Director within seven days from the date this Notice was issued and the Underwriting report was posted to the Department's web site. I understand that my appeal must identify my specific grounds for appeal.
If my appeal is denied by the Executive Director, I

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

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

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

Signed ______________________

Title President of the managing member of the G.P.

Date 2/08/2012

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

TEXAS DEPARTMENT OF HOUSING & COMMUNITY AFFAIRS
Building Homes. Strengthening Communities.

REAL ESTATE ANALYSIS
Housing Tax Credit Program
Underwriting Report Notice

Appeal Election Form 10279 Hudson Green **Date Sent:** 2/08/2012

I am in receipt of my 2010 Underwriting report notice and have reviewed the Appeal Policy at 10TAC Section 50.17(b). I recognize that should I choose to file an appeal, I must file a formal appeal to the Executive Director within seven days from the date this Notice was issued and the Underwriting report was posted to the Department's web site. I understand that my appeal must identify my specific grounds for appeal.
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[ ] Do **not** wish to appeal to the Board of Directors or Executive Director.

Signed [signature]

Title President of the managing member of the G.P.

Date 2/08/2012

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

RECEIVED
By pcloyde at 2:56 pm, Feb 09, 2012

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Cynthia L. Bast
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February 8, 2012

Mr. Tim Irvine
Executive Director
Texas Department of Housing and Community Affairs
221 East 11th Street
Austin, Texas 78701

Re: Hudson Green (TDHCA No. 10279) and Hudson Manor (TDHCA No. 10271)
Appeal for Underwriting, Rescission of Credits, and Denial of Extension

Dear Tim:

We represent Hudson Green, Ltd. and Hudson Manor, Ltd. (each, a "**Partnership**"). The Partnerships received allocations of low-income housing tax credits ("**Tax Credits**") and TDHCA HOME funds in the 2010 application round for the Developments listed above. The 2010 application round included additional Tax Credits associated with Hurricane Ike relief; all of the eligible applicants in Region 5 Rural received awards.

Hudson Green is a proposed 80-unit complex for the general population, with half of those units being reserved for residents at 30% and 50% of AMFI. Hudson Manor is a proposed 80-unit complex for the elderly population, with half of those units being reserved for residents at 30% and 50% of AMFI. The Developments are to be located adjacent to one another in Hudson, Texas, a small suburb of Lufkin. The real estate market in Hudson consists mostly of single family homes. It is a desirable, residential community with schools that have been nationally recognized. The City has no other Tax Credit properties.

Issue Presented

The Partnerships received an attractive offer from Hunt Capital Partners ("**Hunt**") to syndicate the Tax Credits and provide the construction loan. With this financing, the Partnerships proposed to return the HOME funds and eliminate any foreclosable permanent debt. Under this structure, the only permanent debt would be the deferred developer fee and a land loan from the seller. Both the developer and the seller are affiliates of the Partnerships. Recognizing the low rental rates achievable in this rural community, heightened by the deep-skewing of half the units, the Partnerships believed that having non-foreclosable permanent debt would establish favorable conditions for the Developments' long-term viability.

Upon underwriting the restructuring of the financing, TDHCA concluded that the Developments would be financially infeasible under the real estate analysis rules. This led to denial of a pending request for the extension of the date for commencement of substantial construction and rescission of the Tax Credit awards.

The Partnerships appeal the staff's determination that the Developments are financially infeasible and request that the Tax Credits be reinstated so that the Developments can move forward with a deadline for commencement of substantial construction of March 1, 2012, as previously requested.

Underwriting Report

The underwriting report cites two grounds for financial infeasibility and presents other concerns, each of which will be addressed below:

***Initial Feasibility*.**

Department Conclusion: The expense-to-income ratio for each Development in the first year of stabilized operations exceeds 65%.

The Rule:

> § 1.32(i) An infeasible Development will not be recommended for a Grant, loan or Housing Credit Allocation **unless the underwriter can determine an alternative structure** and/or conditions the recommendations of the report upon receipt of documentation supporting an alternative structure. (emphasis added) . . . the Development will be characterized as infeasible if one or more of paragraphs (3) – (5) of this subsection applies unless paragraph (6)(B) of this subsection also applies.
>
> (4) Initial Feasibility. The first year stabilized pro forma operating expense divided by the first year stabilized pro forma Effective Gross Income is greater than . . . 65% . . . .

Discussion: The purpose of the Initial Feasibility test is to ensure that a property has sufficient income, after payment of operating expenses, to pay its permanent debt service. This provides comfort that the property will avoid foreclosure, which would result in loss of the Tax Credits and the affordability. In this case, the proposed financial structure has no foreclosable permanent debt. Thus, the concern addressed by the rule is mitigated by the facts for this particular circumstance. The Initial Feasibility rule can be especially challenging in areas with low rents and deep-skewing to reach lower income residents; such is the case for Hudson Green and Hudson Manor. However, TDHCA recognizes this challenge and provides exceptions to the Initial Feasibility rule in other cases.

For instance, the Initial Feasibility rule does not apply for properties that constitute Supportive Housing. A Supportive Housing property typically generates very low rental income and is financially supported with grants and other non-foreclosable financing. The Initial Feasibility rule also does not apply for properties that constitute public housing. Rents for public housing properties are supported by annual contributions contracts with HUD; owners are expressly prohibited from paying debt service with the rental subsidy. As a result, public housing properties are financed with specialized permanent debt structures. Hudson Green and Hudson Manor present a similar scenario.

Analysis: The underwriting rule states that failure to meet the 65% test results in a conclusion of financial infeasibility **unless the underwriter can determine an alternative structure**. Here, a reasonable alternative structure, similar to the structure for a Supportive Housing or public housing development, was proposed, but the underwriter chose not to accept it. Moreover, § 1.32(6)(A) of the underwriting rule provides:

> The requirements of this subsection may be waived by the Executive Director . . . if documentation is submitted by the Applicant to support unique circumstances that would provide mitigation.

Both the Partnerships and Hunt believe that, by proposing non-foreclosable permanent debt from related parties, they have provided exactly the kind of mitigation that would allow the Executive Director to waive the rule.

Long Term Feasibility

Department Conclusion: The underwritten debt coverage ratio falls below 1.15:1 within the first fifteen (15) years of the long-term pro forma.

The Rule:

> § 1.32(i) An infeasible Development will not be recommended for a Grant, loan or Housing Credit Allocation **unless the underwriter can determine an alternative structure** and/or conditions the recommendations of the report upon receipt of documentation supporting an alternative structure. (emphasis added) . . . the Development will be characterized as infeasible if one or more of paragraphs (3) – (5) of this subsection applies unless paragraph (6)(B) of this subsection also applies.
>
> (5) Long Term Feasibility. Any year in the first fifteen (15) years of the Long Term Pro forma . . . reflects . . . a Debt Coverage Ratio below 1.15.

Discussion: When the Partnerships proposed a financial structure with no foreclosable permanent debt, "REA communicated that its analysis, pursuant to rule, was to include a permanent debt assumption sized at 7% for 30 years to achieve an initial year DCR at 1.35:1." In other words, the underwriter ignored the actual debt structure and assumed a conventional permanent loan at the principal amount of $1,300,000 with 7% interest to run the DCR test. This fictional debt structure resulted in the DCR going below 1.15:1 during the 15-year compliance period. Applying such a hypothetical test ignores the unique circumstances of the proposed financial structure.

Analysis: While it may be standard practice for the underwriter to assume a hypothetical permanent loan in the absence of conventional financing, we believe such practice is not required by the rule. § 1.32(d)(4) with regard to DCR provides:

> DCR is calculated by dividing Net Operating Income by the sum of scheduled loan principal and interest payments for all permanent sources of funds. Loan principal and interest payments are calculated based on the terms indicated in the term sheet(s) for financing submitted in the Application. **Unusual or non-traditional financing structures may also be considered.** (emphasis added)

Additionally, § 1.32(d)(4)(D) provides:

> The acceptable first year stabilized pro forma DCR for all **priority or foreclosable lien financing** plus the Department's proposed financing must be between a minimum of 1.15 and a maximum of 1.35. (emphasis added)

Again, the underwriter has the flexibility to consider alternative financing structures but chose to disqualify the Developments based upon a hypothetical. As noted above, the Executive Director has the authority to waive this rule:

> The requirements of this subsection may be waived by the Executive Director . . . if documentation is submitted by the Applicant to support unique circumstances that would provide mitigation.

The Partnerships and Hunt have proposed a financing structure that protect the Developments from foreclosure on a permanent loan, thus assuring that the Tax Credits and long-term affordability will be preserved. This is the kind of mitigation to allow the Executive Director to waive this rule.

The two conclusions presented above are the only considerations that prohibit the Developments from proceeding, from an underwriting perspective. However, the underwriter presented several other concerns that the Partnerships want to address:

Construction Schedule

Department Concern: The underwriter expressed concern with the Partnerships' ability to start complete construction and place the Developments in service by December 31, 2012, which is the federal deadline associated with the Tax Credits.

Partnership Response: The general contractor for the Developments is unrelated to the Partnerships. The contractor has submitted a construction schedule that shows completion by December 31, 2012. The contractor has indicated that it has experience with completing similar projects within this timeframe and will use parallel crews to expedite construction – one for Hudson Green and one for Hudson Manor. Additionally, Hunt proposes to invest over $6,000,000 in equity and to place over $6,000,000 of construction debt at risk before the Developments are placed into service. Surely, an institution with the sophistication of Hunt would not take such a risk if it felt there was a reasonable likelihood that the Tax Credits would be lost.

Compelling Reasons for Approval

The Executive Director has the authority to waive the real estate analysis rules for Initial Feasibility (65% test) and Long Term Feasibility (DCR test) when mitigating circumstances exist. With a waiver of the rules, the Development would be determined financially feasible, the extension for commencement of substantial construction could be granted, and the Tax Credits could be returned. The Partnerships believe that the revised financial structure proposed in cooperation with Hunt presents just the mitigating circumstances appropriate for such a determination. Moreover, other compelling factors exist such as:

- The proposed financing structure presents no risk to TDHCA.
    - The Partnerships are returning approximately $1,000,000 of HOME funds. As a result, TDHCA will have no exposure to HUD.
    - If the Partnerships complete the Developments by December 31, 2012, there will be affordable housing available in Hudson yet this year. If the Partnerships do not complete the Developments by December 31, 2012, the Tax Credits will be returned and available for reallocation, resulting in affordable housing units being available in two to three years.
- The principals of the Partnerships, Vernon and Elizabeth Young, are assuming the substantial risk.
    - The Youngs will not be paid any fee until the Developments are completed and placed into service. Over $2,000,000 of developer fee and over $880,000 of land cost will not be paid to them until completion and, then, only from cash flow generated by the Developments.
    - The Youngs have invested over $275,000 to date in pursuit of these Developments.
- The Developments are proposed for a highly desirable area that has never received an allocation of Tax Credits.
    - The census tract has a median income in excess of the median income for the county.
    - The census tract has a poverty rate of less than 15%.
    - All schools in the Hudson Independent School District are either "Recognized" or "Exemplary" under the Texas Education Agency ratings.
    - For any of these factors, the site would qualify as a "High Opportunity Area" under the current QAP.

- The Developments provide green initiatives that will reduce utility costs and amenities such as garages for the residents.

- The Partnerships are using a bonded third-party contractor with experience in completing projects of similar size rapidly. The building permits for the Developments are ready for issue as soon as the fee is paid. The construction experience behind the Hunt team will provide added oversight and support for completion.

- The Developments have received enormous support from the community, including the Mayor and City Manager. See the letters attached.

Summary

For all these reasons, we respectfully request that this appeal be granted by the Executive Director. If administrative approval is not possible, we request that this appeal be heard at the next available Board meeting.

Thank you, and feel free to contact me with any questions.

Sincerely,

Cynthia L. Bast

Cynthia L. Bast

cc: Tom Gouris
Brent Stewart
Cameron Dorsey
TDHCA

Vernon and Elizabeth Young
Artisan/American Corp.

Dana Mayo
Hunt Capital Partners

City of Hudson

February 08, 2012

Tim Irvine
Executive Director
Texas Department of Housing and Community Affairs
221 East 11th Street
Austin, Texas 78701-2410

RE: Hudson Manor - #10271
4280 Old Union Road
Hudson, Texas 75904

Dear Mr. Irvine:

The Hudson Manor - #10271 Project, is a much needed project in this critical economy. The City of Hudson is in complete support of this program and believe that it will be a tremendous asset to this community.

Sincerely,

James M. Freeman
City Manager

201 Mt Carmel Road Hudson, Tx 75904
Phone (936) 875-2358 Fax (936) 875-2317

City of Hudson

February 08, 2012

Tim Irvine
Executive Director
Texas Department of Housing and Community Affairs
221 East 11th Street
Austin, Texas 78701-2410

RE: Hudson Manor - #10271
4280 Old Union Road
Hudson, Texas 75904

Dear Mr. Irvine:

The Hudson Manor - #10271 Project, is a much needed project in this critical economy. The City of Hudson is in complete support of this program and believe that it will be a tremendous asset to this community.

Sincerely,

Robert Smith

Robert Smith
Mayor

201 Mt Carmel Road Hudson, Tx 75904
Phone (936) 875-2358 Fax (936) 875-2317

City of Hudson

February 08, 2012

Tim Irvine
Executive Director
Texas Department of Housing and Community Affairs
221 East 11th Street
Austin, Texas 78701-2410

RE: Hudson Green - #10279
840 Mt. Carmel Rd.
Hudson, Texas 75904

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Sincerely,

James Freeman
City Administrator

201 Mt Carmel Road Hudson, Tx 75904
Phone (936) 875-2358 Fax (936) 875-2317

City of Hudson

February 08, 2012

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Texas Department of Housing and Community Affairs
221 East 11th Street
Austin, Texas 78701-2410

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Sincerely,

Robert Smith
Mayor

201 Mt Carmel Road Hudson, Tx 75904
Phone (936) 875-2358 Fax (936) 875-2317

February 6, 2012

(512) 475-2213
cameron.dorsey@tdhca.state.tx.us

Ms. Cynthia L. Bast
Locke Lord
100 Congress, Suite 300
Austin, TX 78701

RE: DENIAL OF EXTENSION REQUEST AND RESCISSION OF HOUSING TAX CREDITS FOR HTC DEVELOPMENT NO. 10271 HUDSON MANOR

Dear Ms. Bast,

The Texas Department of Housing and Community Affairs received your letter of November 18, 2011. The letter requested an additional ninety (90) day extension to submit the documentation fulfilling the commencement of substantial construction requirement. Staff has confirmed that the Department granted one (1) previous extension of the original July 1, 2011 submission deadlines to December 1, 2011.

The reason given for the additional request is that the partnership intended to replace the Development's USDA 538 loan with conventional financing; however, prospective lenders were opposed to taking a second lien position to the Department's HOME loan. Since this original request the Department has reviewed several major changes to various aspects of the proposed transaction, including an application for additional HOME funds in September 2011, subsequent withdrawal of that application, and return of prior awarded HOME funds. Based on conversations with the Applicant, the issues that led to the significant delays and changes were known early in the process and the Applicant proceeded despite early signs that securing the necessary financing would be very difficult.

The Real Estate Analysis Division has completed the updated underwriting report for the subject development. The report concludes that the development is not financially viable. Your request to extend the deadline of the submission of the commencement of substantial construction documentation to March 1, 2012 is denied. Based upon this denial, the Development was unable to meet the required deadlines and the entire Housing Tax Credit Allocation is hereby rescinded.

You have the right to appeal the Department's determinations set forth in this letter. The restrictions and requirements relating to the filing of an appeal can be found in §50.10(c) of the 2012 QAP. If you choose to appeal this determination, you must first submit an appeal to the Executive Director no later than 5:00 pm on **February 13, 2012**. In an appeal to the Executive Director, you may choose to have your appeal considered by the Board automatically in the event the Executive Director denies your appeal.

Sincerely,

Cameron F. Dorsey
Director, Multifamily Finance

MFF/kb

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

www.tdhca.state.tx.us

Rick Perry
GOVERNOR

February 6, 2012

(512) 475-2213
cameron.dorsey@tdhca.state.tx.us

Ms. Cynthia L. Bast
Locke Lord
100 Congress, Suite 300
Austin, TX 78701

RE: DENIAL OF EXTENSION REQUEST AND RESCISSION OF HOUSING TAX CREDITS FOR HTC DEVELOPMENT NO. 10279 HUDSON GREEN

Dear Ms. Bast,

The Texas Department of Housing and Community Affairs received your letter of November 18, 2011. The letter requested an additional ninety (90) day extension to submit the documentation fulfilling the commencement of substantial construction requirement. Staff has confirmed that the Department granted one (1) previous extension of the original July 1, 2011 submission deadlines to December 1, 2011.

The reason given for the additional request is that the partnership intended to replace the Development's USDA 538 loan with conventional financing; however, prospective lenders were opposed to taking a second lien position to the Department's HOME loan. Since this original request the Department has reviewed several major changes to various aspects of the proposed transaction, including an application for additional HOME funds in September 2011, subsequent withdrawal of that application, and return of prior awarded HOME funds. Based on conversations with the Applicant, the issues that led to the significant delays and changes were known early in the process and the Applicant proceeded despite early signs that securing the necessary financing would be very difficult.

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Sincerely,

Cameron F. Dorsey
Director, Multifamily Finance

MFF/kb

Locke Lord LLP
Attorneys & Counselors

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cbast@lockelord.com

February 10, 2012

Mr. Tim Irvine
Executive Director
Texas Department of Housing and Community Affairs
221 East 11th Street
Austin, Texas 78701

Re: Hudson Green (TDHCA No. 10279) and Hudson Manor (TDHCA No. 10271)
Appeal for Underwriting, Rescission of Credits, and Denial of Extension

Dear Tim:

We submitted an appeal with respect to Hudson Green, Ltd. ("**Green**") and Hudson Manor, Ltd. ("**Manor**") on February 8, 2012 (the "**Appeal**"). On February 9, we were asked by Brent Stewart to supplement the Appeal with regard to Manor only.

Specifically, the Manor underwriting report contains an infeasibility conclusion that is not contained in the Green underwriting report, namely that the deferred developer fee is not repayable from cash flow within the first fifteen years of the long-term pro forma. Mr. Stewart asked us to address this infeasibility conclusion.

As noted in the Appeal, the financing plan for Manor involves two non-foreclosable loans serving as permanent debt – a deferred developer fee loan and a land loan, both of which will be paid out of cash flow and both of which will be paid to affiliates. Despite the fact that the financial structuring anticipates no conventional permanent debt, the underwriter assumed a permanent loan in the amount of $1,300,000, bearing 7% interest. Under that hypothetical scenario, the property has $103,787 of must-pay debt service annually, which reduces the cash flow available to pay deferred developer fee. However, it should be noted that this is just a fictional calculation. The reality of the financial structure, per the Hunt letter of intent that was provided, is that there will be no conventional permanent debt. The deferred developer fee will be paid out of cash flow, first, and the land loan will be paid out of cash flow, second. Using the numbers in the underwriting report, the property will have a deferred developer fee of $1,087,087. It will have cumulative net cash flow in the first ten years of $1,214,656. That is more than sufficient to pay the deferred developer fee in full. It assumes that the annual debt service of $103,787 is not used to pay a conventional lender but is rather used to pay the deferred developer fee, which is the intended permanent loan.

Having further discussions with staff, there may be some confusion about the financial structure proposed by our clients. To be perfectly clear, our clients propose <u>no conventional</u>

permanent debt. The only permanent debt will be the deferred developer fee and the land loan, both of which will be paid to affiliates out of cash flow. As our clients were presenting this proposal, they were advised that the underwriter would impute a conventional loan at the rate of 7% anyway. Upon hearing that, our clients submitted another financial model assuming conventional debt, trying to fit within the hypothetical box that TDHCA was utilizing. It was not our clients' intent to suggest that they were planning to use conventional debt. Rather, they were just trying to play along with the assumptions the underwriter was using. We hope we have clarified that position with staff, now. Additionally, both our clients and Hunt have confirmed that they are willing for the tax credit award to be conditioned upon no conventional permanent debt for the 15-year compliance period.

In short, the financial structure proposed by Manor has sufficient cash flow to repay the deferred developer fee within the timeframe required by TDHCA. It is only because the underwriter imposed a hypothetical debt structure that the long-term pro forma failed the test. A project should not be allowed to fail financial feasibility test based upon fiction. Rather, the underwriter should look to the actual debt structure proposed to determine the feasibility. If that is done, Manor passes all the feasibility tests.

Thank you, and feel free to contact me with any questions.

Sincerely,

Cynthia L. Bast

Cynthia L. Bast

cc: Tom Gouris
Brent Stewart
Cameron Dorsey
TDHCA

Vernon and Elizabeth Young
Artisan/American Corp.

Dana Mayo
Hunt Capital Partners

TEXAS DEPARTMENT OF HOUSING & COMMUNITY AFFAIRS
Building Homes. Strengthening Communities.

Real Estate Analysis Division
Underwriting Report - Addendum
February 2, 2012

DEVELOPMENT IDENTIFICATION

TDHCA Application #: 10271 Program(s): 9% HTC

Hudson Manor

Address/Location: 4280 Old Union Rd

City: Hudson County: Angelina Zip: 75904

Population: Senior Program Set-Aside: General Area: Rural

Activity: New Construction Building Type: Garden (Up to 3 story) Region: 5

Analysis Purpose: 1st Addendum to Prior Report

PRIOR REPORT(S)	PROGRAM	FILE #	PURPOSE
10/28/10	9% LIHTC	10271	New Application - Initial Underwriting

ALLOCATION

	PRIOR APPROVAL				CURRENT REQUEST				RECOMMENDATION			
TDHCA Program	**Amount**	**Rate**	**Amort**	**Term**	**Amount**	**Rate**	**Amort**	**Term**	**Amount**	**Rate**	**Amort**	**Term**
HOME Funds	$517,970	0%	30	30	Request Withdrawn				$0	0%	0	0
LIHTC (Annual)*	$955,313				$919,550				$0			

Recommendation based on the infeasibility conclusions pursuant to 2010 REA Rules §1.32(i) as follows:

1) §1.32(i)(2) Deferred Developer Fee: Deferred developer fee is not repayable from cashflow within the first fifteen (15) years of the long-term pro forma.

2) §1.32(i)(4) Initial Feasibility: Pro forma submitted by Applicant indicates an expense-to-income ratio which exceeds the 65% maximum feasibility test. The REA underwritten expense-to-income ratio also exceeds 65% maximum.

3) §1.32(i)(5) Long-Term Feasibility: Underwritten debt coverage ratio falls below a 1.15:1 within the first fifteen (15) years of the long-term pro forma.

SET-ASIDES

TDHCA SET-ASIDES for HTC LURA		
Income Limit	Rent Limit	Number of Units
30% of AMI	30% of AMI	4
50% of AMI	50% of AMI	36
60% of AMI	60% of AMI	40

This section intentionally left blank.

DEAL SUMMARY

Deal was approved for an allocation of tax credits in 2010 along with a $518K HOME loan structured as a second lien behind a conventional mortgage. The approval contained certain conditions which were to be satisfied by various critical dates. Of these, all the Commitment and Carryover conditions were met. One remaining condition, relating to costs of site work, existing improvements and the resulting land cost allocation, was to be satisfied at the 10% Test.

The 10% Test was to be met by July 1, 2011. This deadline was extended to September 1, 2011 and then again to September 30, 2011.

On September 1, 2011, the Applicant submitted documentation to satisfy the condition due at the 10% Test. REA determined that the information did not satisfy the condition. REA worked with the Applicant through the end of September to resolve the issues when REA became aware that the Applicant intended to apply for additional HOME funds due to an inability to secure conventional permanent debt. The Applicant submitted a HOME application for the additional funds on October 3, 2011 (received by REA October 24, 2011 post a program review).

The HOME application contained an operating pro forma that was infeasible pursuant to REA rules (excessive expense to income ratio).

On January 19, 2012, TDHCA staff met with the Applicant, consultants and a new syndicator, Hunt Capital Partners. The Applicant proposed a new capital structure without any HOME funds or conventional permanent debt. In addition to removal of the permanent HOME funds shown on the October 3 revision, the Applicant also eliminated a third-party construction loan from an unrelated private party. Both of these loans were initially used to qualify for points in the 2010 application round. This report does not evaluate the impact on the allocation as a result of the lack of these points.

With removal of the HOME loan, the GAP of sources was to be filled with deferred developer fee and a related-party Seller note (cash flow) secured by the land. No permanent debt was contemplated.

REA communicated that its analysis, pursuant to rule, was to include a permanent debt assumption at 7% for 30 years sized to achieve an initial year DCR at 1.35:1. This assumption led to an infeasibility conclusion (in addition to the expense to income ratio) as a result of the long-term DCR falling below at 1.15:1.

On January 30, 2012, REA received new application exhibits showing a revised capital structure and operating expense pro forma. While the structure now indicates $1.3M in third-party permanent debt, the materials indicate a lender has yet to be identified. A term sheet was not provided. This report does not evaluate the impact on the original allocation from a Threshold standpoint as a result of not having a permanent loan commitment. Discussion of the revised expense pro forma is discussed herein.

Aside from the infeasibility conclusions, the Underwriter has concerns with the Applicant's ability to start construction, complete and place-in-service 100% of the buildings prior to December 31, 2012 (Section 42 deadline). While the contractor provided a construction schedule from a third-party contractor (also reviewed by the equity partner), little if any contingency is included for weather delays or other unforeseen construction issues slowing building delivery. The contractor indicates that this deal and Hudson Green, an adjacent development proposed by the Applicant with the same placement-in-service deadline, would have separate crews working simultaneously.

DEVELOPMENT TEAM

PRIMARY CONTACTS

Name:	H. Elizabeth Young	Relationship:	Developer		
Email:	eyoung@artisanamerican.com	Phone:	713-626-1400	Fax:	713-6261098
Name:	Tim Smith	Consultant:	Hoke Development Services, LLC		
Email:	tsmith@hokeservices.com	Phone:	832-443-0333	Fax:	713-490-3143

OPERATING PROFORMA

SUMMARY - AS UNDERWRITTEN					
NOI:	$125,006	Avg. Rent:	$499	Expense Ratio:	72.08%
Debt Service:	$103,787	B/E Rent:	$471	Controllable Expenses:	$2,630
Net Cash Flow:	$21,219	Occupancy:	92.50%	Property Taxes/Unit:	$432
Aggregate DCR:	1.20:1	B/E Occupancy:	89.11%	Program Rent Year:	2011

Income: Number of Revisions: 3 Date of Last Applicant Revision: 12/8/2011

Since the prior underwriting, EGI increased a net $20K considering higher 2011 rents and slightly higher utility allowances. Elimination of the HOME units does not impact EGI. 60% rents remain below the reported market rents.

36 units are 50% AMI rent restricted units and 4 units are further restricted to 30% AMI (half of the total units are below 60% AMI). In addition to the expense load, this level of deep-rent targeting is contributing to the infeasibility of the deal as lower EGI inflates the expense-to-income ratio. The deep-rent targeting is a selection item the Applicant makes at application for points. If this deal contained 60% units only, EGI would increase to $505K and the Applicant's expense ratio would fall to 62%.

Expense: Number of Revisions: 4 Date of Last Applicant Revision: 1/30/2012

Applicant's expense pro forma increased from $3,518/unit to $4,202/unit (on the December 1, 2011 revision) since the original underwriting. Almost all of the increase stems from significant increases in G&A and Payroll. The Underwriter reviewed G&A and Payroll expenses with the Applicant in detail and they confirmed that the new expense load was more realistic after consulting with the Management Company who participated in producing the estimates (as stated in an RFI response).

In the 2010 original application, the Applicant's pro forma estimated payroll at $70K annually (a staffing plan provided). Subsequently on October 3, 2011, Payroll increased to $92K ($1,152/unit). The Applicant again indicated that after consultation with the management company, the new Payroll estimate was more realistic and a staffing plan supporting the $92K was submitted. CMTS data reports an average $1,072/unit payroll on four other properties involving principals of the Applicant. The $92K payroll estimate was submitted on three separate pro forma submissions. Because of the due diligence done by the Applicant and the management company on the staffing plan and the Applicant's own direct comparables, the Underwriter used the Applicant's estimate in the REA pro forma.

Subsequently after REA's infeasibility conclusion was communicated to the Applicant, another proforma was submitted without solicitation on January 30, 2012 reducing payroll $24K (down to $68K or $850/unit).

Since the December 1, 2011 pro forma revision showing $45K annually, the Applicant's G&A estimate has remained significantly higher than either the database data point or data from other properties operated by the Applicant. The Applicant again expressed due diligence in consultation with the management company for this estimate. The Underwriter assumes the actual G&A per unit reported on their other properties as well as the subject pro forma at $45K is excessive under any circumstances. Therefore, the Underwriter continues to use the original REA estimate.

The equity term sheet requires replacement reserves at $300/unit (greater than REA's $250/unit standard assumption). Despite the term sheet, the Applicant continues to use $250/unit.

REA's underwritten controllable expenses of $2,630/unit are $289/unit over the database data point but solely related to the Payroll assumption. Controllables also exceed the Applicant's pro forma and actual experience on their other properties by $100/unit.

Feasibility:

The Applicant's pro forma indicates an expense ratio above 65% and the deal is determined infeasible as submitted.

The Applicant's pro forma and REA's pro forma differ by more than 5%. REA's expense ratio also exceeds the 65% expense ratio. Additionally, the underwritten pro forma (REA's) produces a DCR below 1.15:1 over the long term pro forma using the underwritten capital structure as discussed below. As a result of both issues and pursuant to REA rule, the deal is deemed infeasible.

DEVELOPMENT COST EVALUATION

COST SCHEDULE Number of Revisions: 2 Date of Last Applicant Revision: 12/8/2011

Off-Site Cost:

Off-Sites ☐ Yes ☑ No Engineer/Architect Cert. ☐ Yes ☐ No ☑ N/A

Site work Cost:

Site Work >$9K/unit ☑ Yes ☐ No Engineer & CPA Cert. ☑ Yes ☐ No ☐ N/A

Comments:

Applicant's Site Work cost of $13,377/unit has been certified to by a Engineer. The Site work increased from $840,310 in 2010 to $1,041,565 in the revised numbers.

The prior Underwriting report discusses the relationship between the site work, prior capitalized costs and the related-party allowable acquisition value that resulted in the 10% Test condition. As stated above, the information submitted by the Applicant was not satisfactory to the Underwriter. The information lacked detail (including an engineered site plan) on the existing improvements which would be re-used in the development of a multifamily property (along with an itemized cost for each item). The engineer provided a general statement that previous improvements would be re-used where possible.

Ultimately and in lieu of identifying a line-item costing of the existing improvements to include in calculation of the acquisition cost (as a related party purchase), the Underwriter used an estimate of site work savings as a result of the site work previously done as estimated by the engineer (such as grading). As a result, the condition due at the 10% Test is satisfied.

Direct Construction Cost:

No significant changes to the Applicant's original Direct Construction Cost. The Underwriter did not re-cost Direct Construction and remains within 5% of the Applicant's estimate. The Applicant's budget is based on building plans that are essentially complete and 3rd party bid.

Conclusion:

A Total Adjusted Basis of $10,613,208 supports annual tax credits of $955,189, slightly less than the original allocation of $955,313.

UNDERWRITTEN CAPITALIZATION

\# Applicant Revisions: 4 Last Update: 1/30/2012

Interim Sources	Amount	Rate	Term	LTC
Hunt Capital Partners, LLC	$3,650,000	7.00%	12 Months	39%
Hunt Capital Partners, LLC	$3,940,272	Syndication Proceeds		42%
Land Seller Note	$596,137	Related Party		6%
Developer	$1,087,087	Deferred Fee		12%
Withheld Reserves	$168,092			2%
Total Interim Sources	**$9,441,588**			

Comments:

Hunt Capital to provide 100% of the non-related party interim financing. The Land Seller Note, Deferred Developer Fee and the Withheld reserves are not funded through construction.

Permanent Sources	Amount	Rate	Amort	Term	LTC
Permanent Lender (To Be Determined)	$1,300,000	7.00%	30	30	14%
Total Permanent Debt	**$1,300,000**				

Comments:

Applicant did not provide a term sheet or conditional commitment from a permanent lender for the proposed $1.3M permanent loan (shown on the January 30, 2012 revisions to the application). Based on the underwritten pro forma, this debt at the submitted terms produces a DCR of 1.20:1 in the first year.

While meeting the initial year 1.15:1 DCR requirement, the DCR falls below the minimum DCR in the nineth year (failing the DCR feasibility test).

For purposes of analysis only and not pursuant to REA rule, the Underwriter calculated a reduced debt amount (to $1,175,000) to raise the first year DCR to the maximum 1.35:1 DCR to determine the effect on the long-term DCR. Based on this analysis, the DCR in Year 15 drops to 1.14:1 which would fail the DCR feasibility test. Additionally under this scenario, the additional $125K of deferred developer fee needed to replace the lost debt proceeds exacerbates the non-repayability of the deferred fee within 15 years (also failing the feasibility test).

Applicant's assumptions for permanent debt changed three times since the original application, the details of which are outlined on the attached capitalization exhibit. Two of the iterations included TDHCA Home funds as part of the permanent capitalization. Since the original application, no third-party permanent lender has been identified.

Equity & Deferred Fees	Amount	Rate	% TC	% Def
Hunt Capital Partners	$7,879,519	$0.82	83%	
Developer	$262,069		3%	24%
Total Equity	$8,141,588			
Total Permanent Sources	**$9,441,588**			

Comments:

Fifteen year net cash flow of $214K is insufficient to repay the $262 deferred developer fee which fails the feasibility test pursuant to REA rule.

Hunt Capital Partners ("Hunt") is the fourth proposed syndicator. Hunt is an affiliate of Hunt Companies, Inc., which has substantial experience in development, construction and finance (including LIHTC developments). A representative from Hunt attended the January 19, 2012 meeting and issued a Letter of Intent on January 21st. Hunt indicates an ability to close timely (construction loan and equity) and believes the development can be placed-in-service by the end of 2012.

From a financial standpoint, Hunt is assuming the risk that all buildings will be placed-in-service and that the allocated amount of tax credits will be realized. While not underwritten, REA assumes Hunt's financial capacity and expertise is more than sufficient to see that the deal performs. That being said, this experience does not offset or guarantee the ability to place-in-service by the end of 2012.

CONCLUSIONS

Recommended Financing Structure:

Based on the underwritten expense ratio (as well as the expense ratio submitted by the Applicant) exceeding 65%, the DCR falling below 1.15:1 within the first 15 years and the inability to repay deferred developer fee within the first 15 years, the development is determined infeasible under the REA rules. Therefore, no credit allocation is recommended.

Allocation determined by eligible basis:	$955,189
Allocation determined by gap in financing:	$986,958
Previously Allocated Amount	$955,313
Recommendation	$0

Underwriter: *Duc Nguyen*

Director of Real Estate Analysis: *Brent Stewart*

UNIT MIX/RENT SCHEDULE

Hudson Manor, Hudson, 9% HTC #10271

LOCATION DATA	
CITY:	Hudson
COUNTY:	Angelina
PROGRAM REGION:	5
RURAL RENT USED:	No
IREM REGION:	NA

UNIT DISTRIBUTION		
# Beds	# Units	% Total
Eff		
1	40	50.0%
2	40	50.0%
3		
4		
TOTAL	80	100.0%

Applicable Programs
LIHTC

PROFORMA ASSUMPTIONS	
REVENUE GROWTH:	2.00%
EXPENSE GROWTH:	3.00%
HIGH COST ADJUSTMENT:	130%
APPLICABLE FRACTION:	100.00%
APP % - ACQUISITION:	100.00%
APP % - CONSTRUCTION:	9.00%
AVERAGE SF	800

UNIT MIX / MONTHLY RENT SCHEDULE

UNIT DESCRIPTION						PROGRAM RENT LIMITS			APPLICANT'S PROFORMA RENTS				TDHCA PROFORMA RENTS				MARKET RENTS		
Type	Gross Rent	# Units	# Beds	# Baths	NRA	Gross Rent	Tenant Pd UA's (Verified)	Max Net Program Rent	Delta to Max Program	Rent per NRA	Net Rent per Unit	Total Monthly Rent	Total Monthly Rent	Rent per Unit	Rent per NRA	Delta to Max Program	Market Rent	Rent per NRA	TDHCA Savings to Market
TC30%	$294	2	1	1	700	$294	$78	$216	$0	$0.31	$216	**$432**	**$432**	$216	$0.31	$0	$605	0.86	$389
TC50%	$490	18	1	1	700	$490	$78	$412	$0	$0.59	$412	**$7,414**	**$7,414**	$412	$0.59	$0	$605	0.86	$193
TC60%	$588	20	1	1	700	$588	$78	$510	$0	$0.73	$510	**$10,198**	**$10,198**	$510	$0.73	$0	$605	0.86	$95
TC30%	$353	2	2	2	900	$353	$88	$265	$0	$0.29	$265	**$530**	**$530**	$265	$0.29	$0	$605	0.67	$340
TC50%	$588	18	2	2	900	$588	$88	$500	$0	$0.56	$500	**$9,003**	**$9,003**	$500	$0.56	$0	$605	0.67	$105
TC60%	$706	20	2	2	900	$706	$88	$618	$0	$0.69	$618	**$12,363**	**$12,363**	$618	$0.69	$0	$725	0.81	$107
TOTALS/AVERAGE		**80**			**64,000**				**$0**	**$0.62**	**$499**	**$39,940**	**$39,940**	**$499**	**$0.62**	**$0**	**$635**	**$0.79**	**$136**
ANNUAL POTENTIAL GROSS RENT:												**$479,275**	**$479,275**						

STABILIZED PROFORMA

Hudson Manor, Hudson, 9% LIHTC #10271

	COMPARABLES			APPLICANT CURRENT UNDERWRITING				APPLICANT REVISIONS SINCE PUBLISHED REPORT			PRIOR PUBLISHED REPORT		TDHCA CURRENT UNDERWRITING				CURRENT VARIANCE	
	Database		Artisan Properties	% EGI	Per SF	Per Unit	1/30/2012	1/23/2012	12/1/2011	10/3/2011	Applicant	TDHCA	Amount	Per Unit	Per SF	% EGI	%	$
POTENTIAL GROSS RENT			$0		$0.62	$499	**$479,275**	$479,275	$466,459	$466,459	**$472,872**	**$455,395**	**$479,275**	$499	$0.62		0.0%	$0
laundry, vending, late fees, nsf fees			$0			$5.00	**$4,800**	$4,800	$4,800		10,200	10,200					0.0%	(4,800)
Underwriter's Total Secondary Income			$0										**$4,800**	$5.00			100.0%	4,800
POTENTIAL GROSS INCOME			$0				**$484,075**	$484,075	$471,259	$466,459	$483,072	$465,595	**$484,075**				0.0%	$0
Vacancy & Collection Loss			$0			7.5% PGI	**(36,306)**	(36,306)	(35,344)	(34,984)	(36,216)	(34,920)	**(36,306)**	7.5% PGI			0.0%	-
EFFECTIVE GROSS INCOME			$0				**$447,770**	$447,769	$435,915	$431,475	$446,856	$430,675	**$447,770**				0.0%	$0
General & Administrative	$27,932	$349/Unit	$467/Unit	10.06%	$0.70	$563	**$45,060**	$45,060	$45,060	$31,860	$20,900	$28,105	**$28,105**	$351	$0.44	6.28%	60.3%	16,955
Management	$28,376	6.4% EGI	$290/Unit	5.14%	$0.36	$288	**$23,000**	$23,000	$23,000	$21,000	$22,300	$21,534	**$23,000**	$288	$0.36	5.14%	0.0%	-
Payroll & Payroll Tax	$59,928	$749/Unit	$1,071/Unit	15.19%	$1.06	$850	**$68,037**	$92,196	$92,196	$92,196	$70,000	$71,136	**$92,196**	$1,152	$1.44	20.59%	-26.2%	(24,159)
Repairs & Maintenance	$53,025	$663/Unit	$442/Unit	10.34%	$0.72	$579	**$46,298**	$46,298	$46,298	$46,298	$48,360	$47,802	**$46,298**	$579	$0.72	10.34%	0.0%	-
Utilities	$17,742	$222/Unit	$238/Unit	4.21%	$0.29	$236	**$18,850**	$18,850	$18,850	$18,850	$13,360	$13,512	**$18,850**	$236	$0.29	4.21%	0.0%	-
Water, Sewer, & Trash	$28,698	$359/Unit	$312/Unit	5.58%	$0.39	$312	**$24,980**	$24,980	$24,980	$36,744	$23,980	$8,844	**$24,980**	$312	$0.39	5.58%	0.0%	-
Property Insurance	$25,681	$0.40 /sf	$310/Unit	5.90%	$0.41	$330	**$26,400**	$26,400	$26,400	$26,400	$24,160	$24,586	**$24,586**	$307	$0.38	5.49%	7.4%	1,814
Property Tax 2.1658	$29,452	$368/Unit	$274/Unit	7.41%	$0.52	$415	**$33,200**	$33,200	$33,200	$33,200	$33,200	$34,154	**$34,549**	$432	$0.54	7.72%	-3.9%	(1,349)
Reserve for Replacements	$28,753	$359/Unit	$177/Unit	4.47%	$0.31	$250	**$20,000**	$20,000	$20,000	$20,000	$20,000	$20,000	**$24,000**	$300	$0.38	5.36%	-16.7%	(4,000)
TDHCA Compliance Fees			-	0.71%	$0.05	$40	**$3,200**	$3,200	$3,200	$3,200	$3,200	$3,200	**$3,200**	$40	$0.05	0.71%	0.0%	-
Cable TV			-	0.22%	$0.02	$13	**$1,000**	$1,000	$1,000	$1,000	$2,000	$2,000	**$1,000**	$13	$0.02	0.22%	0.0%	-
Supportive service contract fees			-	0.45%	$0.03	$25	**$2,000**	$2,000	$2,000	$2,000			**$2,000**	$25	$0.03	0.45%	0.0%	-
TOTAL EXPENSES			**$ 3,581**	**69.68%**	**$4.88**	**$3,900**	**$ 312,025**	**$ 336,184**	**$ 336,184**	**$ 332,748**	**$281,460**	**$274,872**	**$ 322,763**	**$4,035**	**$5.04**	**72.08%**	**-3.3%**	**$ (10,738)**
NET OPERATING INCOME ("NOI")				**30.32%**	**$2.12**	**$1,697**	**$135,744**	**$111,585**	**$99,731**	**$98,727**	**$165,396**	**$155,803**	**$125,006**	**$1,563**	**$1.95**	**27.92%**	**8.6%**	**$10,738**
CONTROLLABLE EXPENSES		$2,342/Unit	$2,530/Unit			$2,540/Unit		$2,842/Unit	$2,842/Unit	$2,824/Unit	$2,208/Unit	$2,117/Unit		$2,630/Unit				
TOTAL EXPENSES PER UNIT								$4,202/Unit	$4,202/Unit	$4,159/Unit	$3,518/Unit	$3,436/Unit						
EXPENSE/INCOME RATIO								75.08%	77.12%	77.12%	62.99%	63.82%						

1) Applicant's General & Administrative expense assumption at $45K doubled since the original application. The Applicant confirmed their assumption on 12/1/11 indicating that the expense schedule was prepared with the assistance of the management company. The assumption was carried through to the 1/30/12 revision. Adjusted on a per unit basis, their estimate is higher than actual on other Artisan properties (as reported to TDHCA in CMTS). The Underwriter assumes that the subject property will be managed consistent with their other properties. However based on their itemized expense schedule, accounting fees included in G&A likely include partnership accounting and audit expenses which are typically shown below the NOI line. Because the Applicant's $45K is so extraordinary, the Underwriter's pro forma uses the G&A estimate from the original underwriting.

2) Applicant's Payroll assumption, as of 10/3/11, increased substantially ($22K) since the original underwriting. Because the assumption was significantly higher than the database data point and their original assumption, the Underwriter requested a staffing plan (which was provided on 12/1/11, with one subsequent revision). The Applicant indicated that the staffing plan was created with the assistance of the management company. The assumption remained through the 1/23/12 pro forma revision but reverted back to near the original application estimate upon discussion with the Applicant on January 30, 2012 about REA's determination that the deal was infeasible as submitted. The Applicant's revised estimate is $200/unit below other properties operated by principals of the Applicant. A revised staffing plan was not provided. The Underwriter assumes that in all cases, the Applicant/management company adjusted their estimates for local employment conditions.

3) Residents will pay for all utilities (including water and sewer) except for trash. The Applicant is estimating that the trash service expense is roughly the same as total WST indicated by the database data point and the Applicant's other properties (although the utility structure on these other properties is not known). REA's original estimate for trash only was derived from the housing authority's utility allowance schedule due to lack of other source information. Because the REA estimate included trash only and not common area water usage (which was in error but would not have affected the original recommendation), the Underwriter is relying on the Applicant's and management company's estimate.

4) Underwriter used the per unit replacement reserve requirement indicated by the syndicator.

5) Applicant's expense to income ratio under each pro forma submitted exceeds the 65% feasibility test. REA's revised pro forma likewise shows an infeasible ratio pursuant to the rules. Controllable expenses, aside from Payroll, exceed the database data point but are consistent with other properties operated by principals of the Applicant.

LONG TERM OPERATING PROFORMA

	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 10	YEAR 15	YEAR 20	YEAR 25	YEAR 30	YEAR 35	YEAR 40
EFFECTIVE GROSS INCOME	$447,770	$456,725	$465,859	$475,177	$484,680	$535,126	$590,822	$652,316	$720,209	$795,169	$877,931	$969,307
LESS: TOTAL EXPENSES	322,763	332,216	341,948	351,967	362,282	418,610	483,767	559,143	646,351	747,256	864,021	999,148
NET OPERATING INCOME	**$125,006**	**$124,509**	**$123,911**	**$123,209**	**$122,398**	**$116,516**	**$107,056**	**$93,172**	**$73,858**	**$47,913**	**$13,911**	**($29,841)**
LESS: DEBT SERVICE	103,787	103,787	103,787	103,787	103,787	103,787	103,787	103,787	103,787	103,787	103,787	103,787
NET CASH FLOW	**$21,219**	**$20,722**	**$20,124**	**$19,422**	**$18,611**	**$12,729**	**$3,268**	**($10,615)**	**($29,929)**	**($55,874)**	**($89,877)**	**($133,628)**
CUMULATIVE NET CASH FLOW	$21,219	$41,941	$62,065	$81,487	$100,098	$176,786	$213,637	$190,287	$81,667	($142,894)	($520,733)	($1,097,095)
DCR ON UNDERWRITTEN DEBT (Must-Pay)	1.20	1.20	1.19	1.19	1.18	1.12	1.03	0.90	0.71	0.46	0.13	-0.29
EXPENSE/EGI RATIO	72.08%	72.74%	73.40%	74.07%	74.75%	78.23%	81.88%	85.72%	89.74%	93.97%	98.42%	103.08%

Note: DCR falls below 1.15:1 in Year 9.

CAPITALIZATION / TOTAL DEVELOPMENT BUDGET / ITEMIZED BASIS

Hudson Manor, Hudson, 9% HTC #10271

DEBT / GRANT SOURCES

	APPLICANT'S PROPOSED DEBT/GRANT STRUCTURE							APPLICANT REVISIONS SINCE PUBLISHED REPORT			PRIOR PUBLISHED REPORT		AS UNDERWRITTEN DEBT/GRANT STRUCTURE						
	Cumulative DCR																	Cumulative	
DEBT (Must Pay)	As UW	App	Pmt	Rate	Amort	Term	Amount (1/30/12)	1/23/2012	12/1/2011	10/3/2011	Applicant	TDHCA	Principal	Term	Amort	Rate	Pmt	DCR	LTC
Permanent Lender (Evanston Financial/FHA)											$1,400,000	$1,350,000							
TDHCA HOME Loan									$1,710,000	$1,710,000	$517,970	$517,970							
Permanent Lender (To Be Determined)	1.20	1.31	$103,787	7.00%	30	30	$1,300,000						$1,300,000	30	30	7.00%	$103,787	1.20	13.8%
CASH FLOW DEBT / GRANTS																			
Land Seller Note/In-Kind	0.00	0.00		0.00%	0	0	$0	$596,137	$86,000	$86,000			$0	0	0	0		1.20	0.0%
TOTAL DEBT / GRANT SOURCES			$103,787				$1,300,000	$596,137	$1,796,000	$1,796,000	$1,917,970	$1,867,970	$1,300,000				$103,787		13.8%
NET CASH FLOW			$31,957														$21,219		

EQUITY SOURCES

	APPLICANT'S PROPOSED EQUITY STRUCTURE					APPLICANT REVISIONS SINCE PUBLISHED REPORT			PRIOR PUBLISHED REPORT		AS UNDERWRITTEN EQUITY STRUCTURE					
EQUITY / DEFERRED FEES	DESCRIPTION	% Cost	Annual Credit	Credit Rate	Amount (1/30/12)	1/23/2012	12/1/2011	10/3/2011	Applicant	TDHCA	Amount	Credit Rate	Annual Credit	% Cost	Per Unit Credit Developer Fee Summary	
Hunt Capital Partners	LIHTC Equity	83.5%	$955,313	$0.825	$7,880,544	$7,880,544					$7,879,519	$0.8249	$955,189	83.5%	Annual Credit per Unit:	$98,494
Hudson Housing Capital	LIHTC Equity	0.0%	$955,313	$0.760	$0		$7,355,175							0.0%		
Stratford Capital	LIHTC Equity	0.0%	$955,313	$0.760	$0			$7,355,175						0.0%		
Evanston Financial	LIHTC Equity	0.0%	$955,313	$0.730	$0				$7,355,173	$7,355,175				0.0%		
Developer	Deferred Developer Fees	2.8%	(24% Deferred)		$261,044	$964,907	$172,522	$172,522	$71,230	$121,228	$262,069	(24% Deferred)		2.8%	Total Developer Fee:	$1,087,087
Additional (Excess) Funds Req'd		0.0%			$0						$0			0.0%	15-Year Cash Flow:	$213,637
TOTAL EQUITY SOURCES		86.2%			$8,141,588	$8,845,451	$7,527,697	$7,527,697	$7,426,403	$7,476,403	$8,141,588			86.2%	15-Yr Cash Flow after Fee:	($48,431)
TOTAL CAPITALIZATION					**$9,441,588**	**$9,441,588**	**$9,323,697**	**$9,323,697**	**$9,344,373**	**$9,344,373**	**$9,441,588**					

DEVELOPMENT COST / ITEMIZED BASIS

	APPLICANT COST / BASIS ITEMS					APPLICANT REVISIONS SINCE PUBLISHED REPORT			Prior Underwriting		TDHCA COST / BASIS ITEMS					COST VARIANCE	
	Eligible Basis													Eligible Basis			
	Acquisition	New Const. Rehab	Total Costs			1/23/2012	12/1/2011	10/3/2011	Applicant	TDHCA	Total Costs			New Const. Rehab	Acquisition	%	$
Land Acquisition				$7,452 / Unit	$596,137	$596,137	$865,000	$865,000	$865,000	$865,000	$596,137	$7,452 / Unit				0.0%	$0
Sitework		$1,070,162		$13,377 / Unit	$1,070,162	$1,070,162	$1,070,162	$1,070,162	$840,310	$840,310	$1,070,162	$13,377 / Unit		$1,070,162		0.0%	$0
Direct Construction		$4,079,202	$63.74 /sf	$50,990/Unit	$4,079,202	$4,079,202	$4,079,202	$4,079,202	$4,305,487	$3,953,832	$3,953,832	$49,423/Unit	$61.78 /sf	$3,953,832		-3.2%	($125,370)
Contingency		$257,000		4.99%	$257,000	$257,000	$257,000	$257,000	$245,869	$245,869	$257,000	5.12%		$257,000		0.0%	$0
Contractor's Fees		$688,334		12.73%	$688,334	$688,334	$688,334	$688,334	$688,334	$688,334	$688,334	13.03%		$688,334		0.0%	$0
Indirect Construction		$730,188		$9,127 / Unit	$730,188	$730,188	$724,000	$724,000	$712,000	$712,000	$730,188	$9,127 / Unit		$730,188		0.0%	$0
Ineligible Costs				$5,214 / Unit	$417,136	$417,136	$176,647	$176,647	$69,766	$69,766	$417,136	$5,214 / Unit				0.0%	$0
Developer's Fees	$0	$1,087,087		15.31%	$1,087,087	$1,087,087	$1,087,087	$1,087,087	$1,087,087	$1,023,874	$1,087,087	15.00%		$1,087,087	$0	0.0%	$0
Interim Financing		$274,250		$3,428 / Unit	$274,250	$274,250	$231,225	$231,225	$385,480	$385,480	$274,250	$3,428 / Unit		$274,250		0.0%	$0
Reserves				$3,026 / Unit	$242,092	$242,092	$145,040	$145,040	$145,040	$145,040	$242,092	$3,026 / Unit				0.0%	$0
UNADJUSTED BASIS / COST	**$0**	**$8,186,223**		$118,020 / Unit	**$9,441,588**	**$9,441,588**	**$9,323,697**	**$9,323,697**	**$9,344,373**	**$8,929,505**	**$9,316,218**	$116,453 / Unit		**$8,060,853**	**$0**	**-1.3%**	**($125,370)**
Acquisition Cost for Identity of Interest Seller					$0												
Developer's Fee	$0	($22,217)															
Contractor's Fee		$0															
Contingency		$0															
ADJUSTED BASIS / COST	**$0**	**$8,164,006**			**$9,441,588**						**$9,316,218**			**$8,060,853**	**$0**		

TOTAL UNDERWRITTEN COSTS (Applicant's Uses are within 5% of TDHCA Estimate):	$9,441,588

CAPITALIZATION / DEVELOPMENT COST BUDGET / ITEMIZED BASIS ITEMS

Hudson Manor, Hudson, 9% HTC #10271

	CREDIT CALCULATION ON QUALIFIED BASIS			
	Applicant		TDHCA	
	Acquisition	Construction Rehabilitation	Acquisition	Construction Rehabilitation
ADJUSTED BASIS	$0	$8,164,006	$0	$8,060,853
Deduction for Other Federal Funds	$0	$0	$0	$0
TOTAL ELIGIBLE BASIS	$0	$8,164,006	$0	$8,060,853
High Cost Area Adjustment		130%		130%
TOTAL ADJUSTED BASIS	$0	$10,613,208	$0	$10,479,109
Applicable Fraction	100.00%	100.00%	100.00%	100.00%
TOTAL QUALIFIED BASIS	$0	$10,613,208	$0	$10,479,109
Applicable Percentage	100.00%	9.00%	100.00%	9.00%
ANNUAL CREDIT ON BASIS	$0	$955,189	$0	$943,120
CREDITS ON QUALIFIED BASIS	$955,189		$943,120	

	ANNUAL CREDIT CALCULATION BASED ON APPLICANT BASIS	
Method	Annual Credits	Proceeds
Eligible Basis	$955,189	$7,879,519
Gap	$986,958	$8,141,588
Original Allocation	$955,313	$7,880,544

FINAL ANNUAL LIHTC ALLOCATION	
Method	Eligible Basis
Credits	$955,189
Underwritten Proceeds	$7,879,519

	TOTAL HARD COST COMPARISON					
	APPLICANT			TDHCA		
	Per SF	Per Unit	Total	Total	Per Unit	Per SF
Hard Costs (Direct, Site-work, Off-Sites & Contingency)	$84.47	$67,580	$5,406,364	$5,280,994	$66,012	$82.52
Applicant's Cost/SF Point Election	$85.00					
Hard Costs plus Contractor Fees	$95.23	$76,184	$6,094,698	$5,969,328	$74,617	$93.27

Real Estate Analysis Division
Underwriting Report - Addendum
February 2, 2012

DEVELOPMENT IDENTIFICATION

TDHCA Application #: 10279 Program(s): 9% HTC

Hudson Green

Address/Location: 840 Mt. Carmel Rd

City: Hudson County: Angelina Zip: 75904

Population: Family Program Set-Aside: General Area: Rural
Activity: New Construction Building Type: Garden (Up to 3 story) Region: 5

Analysis Purpose: 1st Addendum to Prior Report

PRIOR REPORT(S)	PROGRAM	FILE #	PURPOSE
10/28/10	9% LIHTC	10279	New Application - Initial Underwriting

ALLOCATION

	PRIOR APPROVAL				CURRENT REQUEST				RECOMMENDATION			
TDHCA Program	**Amount**	**Rate**	**Amort**	**Term**	**Amount**	**Rate**	**Amort**	**Term**	**Amount**	**Rate**	**Amort**	**Term**
HOME Funds	$415,000	0%	30	30	Request Withdrawn				$0	0%	0	0
LIHTC (Annual)*	$919,550				$919,550				$0			

Recommendation based on the infeasibility conclusions pursuant to 2010 REA Rules §1.32(i) as follows:

1) §1.32(i)(4) Initial Feasibility: Pro forma submitted by Applicant indicates an expense-to-income ratio which exceeds the 65% maximum feasibility test. The REA underwritten expense-to-income ratio also exceeds 65% maximum.

2) §1.32(i)(5) Long-Term Feasibility: Underwritten debt coverage ratio falls below a 1.15:1 within the first fifteen (15) years of the long-term pro forma.

SET-ASIDES

TDHCA SET-ASIDES for HTC LURA		
Income Limit	Rent Limit	Number of Units
30% of AMI	30% of AMI	4
50% of AMI	50% of AMI	36
60% of AMI	60% of AMI	40

DEAL SUMMARY

Deal was approved for an allocation of tax credits in 2010 along with a $518K HOME loan structured as a second lien behind a conventional mortgage. The approval contained certain conditions which were to be satisfied by various critical dates. Of these, all the Commitment and Carryover conditions were met. One remaining condition, relating to costs of site work, existing improvements and the resulting land cost allocation, was to be satisfied at the 10% Test.

The 10% Test was to be met by July 1, 2011. This deadline was extended to September 1, 2011 and then again to September 30, 2011.

On September 1, 2011, the Applicant submitted documentation to satisfy the condition due at the 10% Test. REA determined that the information did not satisfy the condition. REA worked with the Applicant through the end of September to resolve the issues when REA became aware that the Applicant intended to apply for additional HOME funds due to an inability to secure conventional permanent debt. The Applicant submitted a HOME application for the additional funds on October 3, 2011 (received by REA October 24, 2011 post a program review).

The HOME application contained an operating pro forma that was infeasible pursuant to REA rules (excessive expense to income ratio).

On January 19, 2012, TDHCA staff met with the Applicant, consultants and a new syndicator, Hunt Capital Partners. The Applicant proposed a new capital structure without any HOME funds or conventional permanent debt. In addition to removal of the permanent HOME funds as shown on the October 3 revision, the Applicant also eliminated a third-party construction loan from an unrelated private party. Both of these loans were initially used to qualify for points in the 2010 application round. This report does not evaluate the impact on the allocation as a result of the lack of these points.

With removal of the HOME loan, the GAP of sources was to be filled with deferred developer fee and a related-party Seller note (cash flow) secured by the land. No permanent debt was contemplated.

REA communicated that its analysis, pursuant to rule, was to include a permanent debt assumption sized at 7% for 30 years to acheive an initial year DCR at 1.35:1. This assumption led to an infeasibility conclusion (in addition to the expense to income ratio) as a result of the long-term DCR falling below at 1.15:1.

On January 30, 2012, REA received new application exhibits showing a revised capital structure and operating expense pro forma. While the structure now indicates $1.3M in third-party permanent debt, the materials indicate a lender has yet to be identified. A term sheet was not provided. This report does not evaluate the impact on the original allocation from a Threshold standpoint as a result of not having a permanent loan commitment. Discussion of the revised expense pro forma is discussed herein.

Aside from the infeasibility conclusions, the Underwriter has concerns with the Applicant’s ability to start construction, complete and place-in-service 100% of the buildings prior to December 31, 2012 (Section 42 deadline). While the contractor provided a construction schedule from a third-party contractor (also reviewed by the equity partner), little if any contingency is included for weather delays or other unforeseen construction issues slowing building delivery. The contractor indicates that this deal and Hudson Manor, an adjacent development proposed by the Applicant with the same placement-in-service deadline, would have separate crews working simultaneously.

DEVELOPMENT TEAM

PRIMARY CONTACTS

Name:	H. Elizabeth Young	Relationship:	Developer		
Email:	eyoung@artisanamerican.com	Phone:	713-626-1400	Fax:	713-6261098
Name:	Tim Smith	Consultant:	Hoke Development Services, LLC		
Email:	tsmith@hokeservices.com	Phone:	832-443-0333	Fax:	713-490-3143

OPERATING PROFORMA

SUMMARY - AS UNDERWRITTEN					
NOI:	$124,152	Avg. Rent:	$499	Expense Ratio:	72.27%
Debt Service:	$103,787	B/E Rent:	$471	Controllable Expenses:	$2,645
Net Cash Flow:	$20,364	Occupancy:	92.50%	Property Taxes/Unit:	$432
Aggregate DCR:	1.20:1	B/E Occupancy:	89.28%	Program Rent Year:	2011

Income: Number of Revisions: 3 Date of Last Applicant Revision: 12/8/2011

Since the prior underwriting, EGI increased a net $20K considering higher 2011 rents and slightly higher utility allowances. Elimination of the HOME units does not impact EGI. 60% rents remain below the reported market rents.

36 units are 50% AMI rent restricted units and 4 units are further restricted to 30% AMI (half of the total units are below 60% AMI). In addition to the expense load, this level of deep-rent targeting is contributing to the infeasibility of the deal as lower EGI inflates the expense-to-income ratio. The deep-rent targeting is a selection item the Applicant makes at application for points. If this deal contained 60% units only, EGI would increase to $505K and the Applicant's expense ratio would fall to 62%.

Expense: Number of Revisions: 4 Date of Last Applicant Revision: 1/30/2012

Applicant's expense pro forma increased from $3,466/unit to $4,202/unit (on the December 1, 2011 revision) since the original underwriting. Almost all of the increase stems from significant increases in G&A and Payroll. The Underwriter reviewed G&A and Payroll expenses with the Applicant in detail and they confirmed that the new expense load was more realistic after consulting with the Management Company who participated in producing the estimates (as stated in an RFI response).

In the 2010 original application, the Applicant's pro forma estimated payroll at $70K annually (a staffing plan provided). Subsequently on October 3, 2011, Payroll increased to $92K ($1,152/unit). The Applicant again indicated that after consultation with the management company, the new Payroll estimate was more realistic and a staffing plan supporting the $92K was submitted. CMTS data reports an average $1,072/unit payroll on four other properties involving principals of the Applicant. The $92K payroll estimate was submitted on three separate pro forma submissions. Because of the due diligence done by the Applicant and the management company on the staffing plan and the Applicant's own direct comparables, the Underwriter used the Applicant's estimate in the REA pro forma.

Subsequently after REA's infeasibility conclusion was communicated to the Applicant, another proforma was submitted without solicitation on January 30, 2012 reducing payroll $24K (down to $68K or $850/unit).

Since the December 1, 2011 pro forma revision showing $45K annually, the Applicant's G&A estimate has remained significantly higher than either the database data point or data from other properties operated by the Applicant. The Applicant again expressed due diligence in consultation with the management company for this estimate. The Underwriter assumes the actual G&A per unit reported on their other properties as well as the subject proforma at $45K is excessive under any circumstances. Therefore, the Underwriter continues to use the original REA estimate.

The equity term sheet requires replacement reserves at $300/unit (greater than REA's $250/unit standard assumption). Despite the term sheet, the Applicant continues to use $250/unit.

REA's underwritten controllable expenses of $2,645/unit are $265/unit over the database data point but solely related to the Payroll assumption. Controllables also exceed the Applicant's pro forma and actual experience on their other properties by $115/unit.

Feasibility:

The Applicant's pro forma indicates an expense ratio above 65% and the deal is determined infeasible as submitted.

The Applicant's pro forma and REA's pro forma differ by more than 5%. REA's expense ratio also exceeds the 65% expense ratio. Additionally, the underwritten pro forma (REA) produces a DCR below 1.15:1 over the long term pro forma using the underwritten capital structure as discussed below. As a result of both issues and pursuant to REA rule, the deal is deemed infeasible.

DEVELOPMENT COST EVALUATION

COST SCHEDULE Number of Revisions: 2 Date of Last Applicant Revision: 12/8/2011

Off-Site Cost:

Off-Sites ☐ Yes ☑ No Engineer/Architect Cert. ☐ Yes ☐ No ☑ N/A

Site work Cost:

Site Work >$9K/unit ☑ Yes ☐ No Engineer & CPA Cert. ☑ Yes ☐ No ☐ N/A

Comments:

Applicant's Site Work cost of $13,020/unit has been certified to by a Engineer. The Site work increased from $719,201 ($8,990/unit which is $10/unit below the REA threshold) in 2010 to $1,041,565 in the revised numbers.

The prior Underwriting report discusses the relationship between the site work, prior capitalized costs and the related-party allowable acquisition value that resulted in the 10% Test condition. The information submitted by the Applicant was not satisfactory to the Underwriter. The information lacked detail (including an engineered site plan) on the existing improvements which would be re-used in the development of a multifamily property (along with an itemized cost for each item). The engineer provided a general statement that previous improvements would be re-used where possible.

Ultimately and in lieu of identifying the cost of the existing improvements to include in calculation of the acquisition cost (as a related party purchase), the Underwriter used an estimate of site work savings as a result of the site work previously done as estimated by the engineer (such as grading). As a result, the condition due at the 10% Test is satisfied.

Direct Construction Cost:

No significant changes to the Applicant's original Direct Construction Cost. The Underwriter did not re-cost Direct Construction and remains within 5% of the Applicant's estimate. The Applicant's budget is based on building plans that are essentially complete and 3rd party bid.

Conclusion:

A Total Adjusted Basis of $10,448,455 supports annual tax credits of $940,361, although the actual allocation would be limited to the original allocation of $919,550.

UNDERWRITTEN CAPITALIZATION

Applicant Revisions: 4 Last Update: 1/30/2012

Interim Sources	Amount	Rate	Term	LTC
Hunt Capital Partners, LLC	$3,600,000	7.00%	12 Months	40%
Hunt Capital Partners, LLC	$3,792,764	Syndication Proceeds		43%
Land Seller Note	$288,930	Related Party		3%
Developer	$1,066,787	Deferred Fee		12%
Withheld Reserves	$168,080			2%
Total Interim Sources	**$8,916,561**			

Comments:

Hunt Capital to provide 100% of the non-related party interim financing. The Land Seller Note, Deferred Developer Fee and the Withheld reserves are not funded through construction.

Permanent Sources	Amount	Rate	Amort	Term	LTC
Permanent Lender (To Be Determined)	$1,300,000	7.00%	30	30	15%
Total Permanent Debt	**$1,300,000**				

Comments:

Applicant did not provide a term sheet or conditional commitment from a permanent lender for the proposed $1.3M permanent loan (shown on the January 30, 2012 revisions to the application). Based on the underwritten pro forma, this debt at the submitted terms produces a DCR of 1.20:1 in the first year.

While meeting the initial year 1.15:1 DCR requirement, the DCR falls below the minimum DCR in the eighth year (failing the DCR feasibility test).

For purposes of analysis only and not pursuant to REA rule, the Underwriter calculated a reduced debt amount (to $1,150,000) to raise the first year DCR to the maximum 1.35:1 DCR to determine the effect on the long-term DCR. Based on this analysis, the DCR remains above 1.15:1 through Year 15 which would pass the DCR feasibility test.

Applicant's assumptions for permanent debt changed three times since the original application, the details of which are outlined on the attached capitalization exhibit. Two of the iterations included TDHCA Home funds as part of the permanent capitalization. Since the original application, no third-party permanent lender has been identified.

Equity & Deferred Fees	Amount	Rate	% TC	% Def
Hunt Capital Partners	$7,585,529	$0.82	85%	
Developer	$17,180		0%	2%
Total Equity	$7,602,709			
Total Permanent Sources	**$8,902,709**			

Comments:

Hunt Capital Partners ("Hunt") is the fourth proposed syndicator. Hunt is an affiliate of Hunt Companies, Inc., which has substantial experience in development, construction and finance (including LIHTC developments). A representative from Hunt attended the January 19, 2012 meeting and issued a Letter of Intent on January 21st. Hunt indicates an ability to close timely (construction loan and equity) and believes the development can be placed-in-service by the end of 2012.

From a financial standpoint, Hunt is assuming the risk that all buildings will be placed-in-service and that the allocated amount of tax credits will be realized. While not underwritten, REA assumes Hunt's financial capacity and expertise is more than sufficient to see that the deal performs. That being said, this experience does not offset or guarantee the ability to place-in-service by the end of 2012.

CONCLUSIONS

Recommended Financing Structure:

Based on the underwritten expense ratio (as well as the expense ratio submitted by the Applicant) exceeding 65% and the DCR falling below 1.15:1 within the first 15 years, the development is determined infeasible under the REA rules. Therefore, no credit allocation is recommended.

Allocation determined by eligible basis:	$940,361
Allocation determined by gap in financing:	$921,633
Previously Allocated Amount	$919,550
Recommendation	$0

Underwriter: *Duc Nguyen*

Director of Real Estate Analysis: *Brent Stewart*

UNIT MIX/RENT SCHEDULE

Hudson Green, Hudson, 9% HTC #10279

LOCATION DATA

CITY:	Hudson
COUNTY:	Angelina
PROGRAM REGION:	5
RURAL RENT USED:	No
IREM REGION:	NA

UNIT DISTRIBUTION

# Beds	# Units	% Total
Eff		
1	40	50.0%
2	40	50.0%
3		
4		
TOTAL	**80**	**100.0%**

Applicable Programs

Applicable Programs
LIHTC

PROFORMA ASSUMPTIONS

REVENUE GROWTH:	2.00%
EXPENSE GROWTH:	3.00%
HIGH COST ADJUSTMENT:	130%
APPLICABLE FRACTION:	100.00%
APP % - ACQUISITION:	100.00%
APP % - CONSTRUCTION:	9.00%
AVERAGE SF	867

UNIT MIX / MONTHLY RENT SCHEDULE

UNIT DESCRIPTION						PROGRAM RENT LIMITS			APPLICANT'S PROFORMA RENTS				TDHCA PROFORMA RENTS				MARKET RENTS		
Type	Gross Rent	# Units	# Beds	# Baths	NRA	Gross Rent	Tenant Pd UA's (Verified)	Max Net Program Rent	Delta to Max Program	Rent per NRA	Net Rent per Unit	Total Monthly Rent	Total Monthly Rent	Rent per Unit	Rent per NRA	Delta to Max Program	Market Rent	Rent per NRA	TDHCA Savings to Market
TC30%	$294	1	1	1	700	$294	$78	$216	$0	$0.31	$216	**$216**	**$216**	$216	$0.31	$0	$645	0.92	$429
TC50%	$490	4	1	1	700	$490	$78	$412	$0	$0.59	$412	**$1,648**	**$1,648**	$412	$0.59	$0	$645	0.92	$233
TC60%	$588	3	1	1	700	$588	$78	$510	$0	$0.73	$510	**$1,530**	**$1,530**	$510	$0.73	$0	$645	0.92	$135
TC30%	$294	1	1	1	761	$294	$78	$216	$0	$0.28	$216	**$216**	**$216**	$216	$0.28	$0	$645	0.85	$429
TC50%	$490	14	1	1	761	$490	$78	$412	$0	$0.54	$412	**$5,766**	**$5,766**	$412	$0.54	$0	$645	0.85	$233
TC60%	$588	17	1	1	761	$588	$78	$510	$0	$0.67	$510	**$8,668**	**$8,668**	$510	$0.67	$0	$645	0.85	$135
TC30%	$353	1	2	2	973	$353	$88	$265	$0	$0.27	$265	**$265**	**$265**	$265	$0.27	$0	$645	0.66	$380
TC50%	$588	4	2	2	973	$588	$88	$500	$0	$0.51	$500	**$2,001**	**$2,001**	$500	$0.51	$0	$645	0.66	$145
TC60%	$706	3	2	2	973	$706	$88	$618	$0	$0.64	$618	**$1,854**	**$1,854**	$618	$0.64	$0	$645	0.66	$27
TC30%	$353	1	2	2	989	$353	$88	$265	$0	$0.27	$265	**$265**	**$265**	$265	$0.27	$0	$645	0.65	$380
TC50%	$588	14	2	2	989	$588	$88	$500	$0	$0.51	$500	**$7,002**	**$7,002**	$500	$0.51	$0	$755	0.76	$255
TC60%	$706	17	2	2	989	$706	$88	$618	$0	$0.63	$618	**$10,509**	**$10,509**	$618	$0.63	$0	$755	0.76	$137
TOTALS/AVERAGE		**80**			**69,384**				**$0**	**$0.58**	**$499**	**$39,940**	**$39,940**	**$499**	**$0.58**	**$0**	**$688**	**$0.79**	**$188**
ANNUAL POTENTIAL GROSS RENT:												**$479,275**	**$479,275**						

STABILIZED PROFORMA

Hudson Green, Hudson, 9% LIHTC #10279

	STABILIZED FIRST YEAR PROFORMA																	
	COMPARABLES			APPLICANT CURRENT UNDERWRITING				APPLICANT REVISIONS SINCE PUBLISHED REPORT			PRIOR PUBLISHED REPORT		TDHCA CURRENT UNDERWRITING				CURRENT VARIANCE	
	Database		Artisan Properties	% EGI	Per SF	Per Unit	1/30/2012	1/23/2012	12/1/2011	10/3/2011	Applicant	TDHCA	Amount	Per Unit	Per SF	% EGI	%	$
POTENTIAL GROSS RENT			$0		$0.58	$499	**$479,275**	$479,275	$466,627	$466,627	**$455,395**	**$455,544**	**$479,275**	$499	$0.58		0.0%	$0
laundry, vending, late fees, nsf fees			$0			$5.00	**$4,800**	$4,800	$4,800		7,680	7,680					0.0%	(4,800)
Underwriter's Total Secondary Income			$0										**$4,800**	$5.00			100.0%	4,800
POTENTIAL GROSS INCOME			$0				**$484,075**	$484,075	$471,427	$466,627	$463,075	$463,224	**$484,075**				0.0%	$0
Vacancy & Collection Loss			$0			7.5% PGI	**(36,306)**	(36,306)	(35,357)	(34,997)	(34,731)	(34,728)	**(36,306)**	7.5% PGI			0.0%	-
EFFECTIVE GROSS INCOME			$0				**$447,770**	$447,769	$436,070	$431,630	$428,344	$428,496	**$447,770**				0.0%	$0
General & Administrative	$29,085	$364/Unit	$467/Unit	10.06%	$0.65	$563	**$45,060**	$45,060	$45,060	$31,860	$20,900	$29,261	**$29,261**	$366	$0.42	6.53%	54.0%	15,799
Management	$29,560	6.4% EGI	$290/Unit	5.14%	$0.33	$288	**$23,000**	$23,000	$23,000	$21,000	$21,400	$21,417	**$23,000**	$288	$0.33	5.14%	0.0%	-
Payroll & Payroll Tax	$59,928	$749/Unit	$1,071/Unit	15.19%	$0.98	$850	**$68,037**	$92,196	$92,196	$92,196	$70,000	$69,888	**$92,196**	$1,152	$1.33	20.59%	-26.2%	(24,159)
Repairs & Maintenance	$53,025	$663/Unit	$442/Unit	10.34%	$0.67	$579	**$46,298**	$46,298	$46,298	$46,298	$48,360	$48,244	**$46,298**	$579	$0.67	10.34%	0.0%	-
Utilities	$18,491	$231/Unit	$238/Unit	4.21%	$0.27	$236	**$18,850**	$18,850	$18,850	$18,850	$10,100	$13,512	**$18,850**	$236	$0.27	4.21%	0.0%	-
Water, Sewer, & Trash	$29,896	$374/Unit	$312/Unit	5.58%	$0.36	$312	**$24,980**	$24,980	$24,980	$36,744	$23,980	$8,844	**$24,980**	$312	$0.36	5.58%	0.0%	-
Property Insurance	$26,730	$0.39 /sf	$310/Unit	5.90%	$0.38	$330	**$26,400**	$26,400	$26,400	$26,400	$24,160	$24,284	**$24,284**	$304	$0.35	5.42%	8.7%	2,116
Property Tax 2.1658	$30,649	$383/Unit	$274/Unit	7.41%	$0.48	$415	**$33,200**	$33,200	$33,200	$33,200	$33,200	$33,983	**$34,549**	$432	$0.50	7.72%	-3.9%	(1,349)
Reserve for Replacements	$29,977	$375/Unit	$177/Unit	4.47%	$0.29	$250	**$20,000**	$20,000	$20,000	$20,000	$20,000	$20,000	**$24,000**	$300	$0.35	5.36%	-16.7%	(4,000)
TDHCA Compliance Fees			-	0.71%	$0.05	$40	**$3,200**	$3,200	$3,200	$3,200	$3,200	$3,200	**$3,200**	$40	$0.05	0.71%	0.0%	-
Cable TV			-	0.22%	$0.01	$13	**$1,000**	$1,000	$1,000	$1,000	$2,000	$2,000	**$1,000**	$13	$0.01	0.22%	0.0%	-
Supportive service contract fees			-	0.45%	$0.03	$25	**$2,000**	$2,000	$2,000	$2,000			**$2,000**	$25	$0.03	0.45%	0.0%	-
TOTAL EXPENSES			**$ 3,581**	**69.68%**	**$4.50**	**$3,900**	**$ 312,025**	**$ 336,184**	**$ 336,184**	**$ 332,748**	**$277,300**	**$274,634**	**$ 323,618**	**$4,045**	**$4.66**	**72.27%**	**-3.6%**	**$ (11,593)**
NET OPERATING INCOME ("NOI")				**30.32%**	**$1.96**	**$1,697**	**$135,744**	**$111,585**	**$99,886**	**$98,882**	**$151,044**	**$153,862**	**$124,152**	**$1,552**	**$1.79**	**27.73%**	**9.3%**	**$11,593**
CONTROLLABLE EXPENSES		$2,380/Unit	$2,530/Unit			$2,540/Unit		$2,842/Unit	$2,842/Unit	$2,824/Unit	$2,167/Unit	$2,122/Unit		$2,645/Unit				
TOTAL EXPENSES PER UNIT								$4,202/Unit	$4,202/Unit	$4,159/Unit	$3,466/Unit	$3,433/Unit						
EXPENSE/INCOME RATIO								75.08%	77.09%	77.09%	64.74%	64.09%						

1) Applicant's General & Administrative expense assumption at $45K doubled since the original application. The Applicant confirmed their assumption on 12/1/11 indicating that the expense schedule was prepared with the assistance of the management company. The assumption was carried through to the 1/30/12 revision. Adjusted on a per unit basis, their estimate is higher than actual on other Artisan properties (as reported to TDHCA in CMTS). The Underwriter assumes that the subject property will be managed consistent with their other properties. However based on their itemized expense schedule, accounting fees included in G&A likely include partnership accounting and audit expenses which are typically shown below the NOI line. Because the Applicant's $45K is so extraordinary, the Underwriter's pro forma uses the G&A estimate from the original underwriting.

2) Applicant's Payroll assumption, as of 10/3/11, increased substantially ($22K) since the original underwriting. Because the assumption was significantly higher than the database data point and their original assumption, the Underwriter requested a staffing plan (which was provided on 12/1/11, with one subsequent revision). The Applicant indicated that the staffing plan was created with the assistance of the management company. The assumption remained through the 1/23/12 pro forma revision but reverted back to near the original application estimate upon discussion with the Applicant on January 30, 2012 about REA's determination that the deal was infeasible as submitted. The Applicant's revised estimate is $200/unit below other properties operated by principals of the Applicant. A revised staffing plan was not provided. The Underwriter assumes that in all cases, the Applicant/management company adjusted their estimates for local employment conditions.

3) Residents will pay for all utilities (including water and sewer) except for trash. The Applicant is estimating that the trash service expense is roughly the same as total WST indicated by the database data point and the Applicant's other properties (although the utility structure on these other properties is not known). REA's original estimate for trash only was derived from the housing authority's utility allowance schedule due to lack of other source information. Because the REA estimate included trash only and not common area water usage (which was in error but would not have affected the original recommendation), the Underwriter is relying on the Applicant's and management company's estimate.

4) Underwriter used the per unit replacement reserve requirement indicated by the syndicator.

5) Applicant's expense to income ratio under each pro forma submitted exceeds the 65% feasibility test. REA's revised pro forma likewise shows an infeasible ratio pursuant to the rules. Controllable expenses, aside from Payroll, exceed the database data point but are consistent with other properties operated by principals of the Applicant.

LONG TERM OPERATING PROFORMA												
	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 10	YEAR 15	YEAR 20	YEAR 25	YEAR 30	YEAR 35	YEAR 40
EFFECTIVE GROSS INCOME	$447,770	$456,725	$465,859	$475,177	$484,680	$535,126	$590,822	$652,316	$720,209	$795,169	$877,931	$969,307
LESS: TOTAL EXPENSES	323,618	333,097	342,855	352,901	363,244	419,725	485,060	560,642	648,089	749,270	866,355	1,001,854
NET OPERATING INCOME	**$124,152**	**$123,628**	**$123,005**	**$122,275**	**$121,436**	**$115,401**	**$105,763**	**$91,674**	**$72,121**	**$45,899**	**$11,576**	**($32,548)**
LESS: DEBT SERVICE	103,787	103,787	103,787	103,787	103,787	103,787	103,787	103,787	103,787	103,787	103,787	103,787
NET CASH FLOW	**$20,364**	**$19,841**	**$19,217**	**$18,488**	**$17,649**	**$11,613**	**$1,976**	**($12,114)**	**($31,666)**	**($57,888)**	**($92,212)**	**($136,335)**
CUMULATIVE NET CASH FLOW	$20,364	$40,206	$59,423	$77,911	$95,560	$166,988	$197,741	$167,321	$50,506	($183,556)	($572,409)	($1,161,539)
DCR ON UNDERWRITTEN DEBT (Must-Pay)	1.20	1.19	1.19	1.18	1.17	1.11	1.02	0.88	0.69	0.44	0.11	-0.31
EXPENSE/EGI RATIO	72.27%	72.93%	73.60%	74.27%	74.95%	78.43%	82.10%	85.95%	89.99%	94.23%	98.68%	103.36%

Note: DCR falls below 1.15:1 in Year 8.

CAPITALIZATION / TOTAL DEVELOPMENT BUDGET / ITEMIZED BASIS

Hudson Green, Hudson, 9% HTC #10279

DEBT / GRANT SOURCES

	APPLICANT'S PROPOSED DEBT/GRANT STRUCTURE							APPLICANT REVISIONS SINCE PUBLISHED REPORT			PRIOR PUBLISHED REPORT		AS UNDERWRITTEN DEBT/GRANT STRUCTURE						
DEBT (Must Pay)	Cumulative DCR As UW	Cumulative DCR App	Pmt	Rate	Amort	Term	Amount (1/30/12)	1/23/2012	12/1/2011	10/3/2011	Applicant	TDHCA	Principal	Term	Amort	Rate	Pmt	Cumulative DCR	Cumulative LTC
Permanent Lender (Evanston Financial/FHA)											$1,180,000	$1,180,000							
TDHCA HOME Loan									$1,400,000	$1,400,000	$415,000	$415,000							
Permanent Lender (To Be Determined)	1.20	1.31	$103,787	7.00%	30	30	$1,300,000						$1,300,000	30	30	7.00%	$103,787	1.20	14.6%
CASH FLOW DEBT / GRANTS																			
Land Seller Note/In-Kind	0.00	0.00		0.00%	0	0	$0	$288,930	$76,000	$76,000			$0	0	0	0		1.20	0.0%
TOTAL DEBT / GRANT SOURCES			$103,787				$1,300,000	$288,930	$1,476,000	$1,476,000	$1,595,000	$1,595,000	$1,300,000				$103,787		14.6%
NET CASH FLOW			$31,957														$20,364		

EQUITY SOURCES

	APPLICANT'S PROPOSED EQUITY STRUCTURE					APPLICANT REVISIONS SINCE PUBLISHED REPORT			PRIOR PUBLISHED REPORT		AS UNDERWRITTEN EQUITY STRUCTURE					
EQUITY / DEFERRED FEES	DESCRIPTION	% Cost	Annual Credit	Credit Rate	Amount (1/30/12)	1/23/2012	12/1/2011	10/3/2011	Applicant	TDHCA	Amount	Credit Rate	Annual Credit	% Cost	Per Unit Credit Developer Fee Summary	
Hunt Capital Partners	LIHTC Equity	85.2%	$919,550	$0.825	$7,585,529	$7,585,529					$7,585,529	$0.8249	$919,550	85.2%	Annual Credit per Unit:	$94,819
Hudson Housing Capital	LIHTC Equity	0.0%	$919,550	$0.760	$0		$6,987,881							0.0%		
Stratford Capital	LIHTC Equity	0.0%	$919,550	$0.760	$0			$6,987,881						0.0%		
Evanston Financial	LIHTC Equity	0.0%	$919,550	$0.730	$0				$6,758,017	$6,758,017				0.0%		
Developer	Deferred Developer Fees	0.2%	(2% Deferred)		$17,179	$1,028,249	$30,540	$30,540	$247,004	$247,004	$17,180	(2% Deferred)		0.2%	Total Developer Fee:	$1,066,787
Additional (Excess) Funds Red's		0.0%			$0						$0			0.0%	15-Year Cash Flow:	$197,741
TOTAL EQUITY SOURCES		85.4%			$7,602,708	$8,613,778	$7,018,421	$7,018,421	$7,005,021	$7,005,021	$7,602,709			85.4%	15-Yr Cash Flow after Fee:	$180,562
TOTAL CAPITALIZATION					**$8,902,708**	**$8,902,708**	**$8,494,421**	**$8,494,421**	**$8,600,021**	**$8,600,021**	**$8,902,709**					

DEVELOPMENT COST / ITEMIZED BASIS

	APPLICANT COST / BASIS ITEMS					APPLICANT REVISIONS SINCE PUBLISHED REPORT			Prior Underwriting		TDHCA COST / BASIS ITEMS					COST VARIANCE	
	Eligible Basis Acquisition	Eligible Basis New Const. Rehab	Total Costs			1/23/2012	12/1/2011	10/3/2011	Applicant	TDHCA	Total Costs			Eligible Basis New Const. Rehab	Eligible Basis Acquisition	%	$
Land Acquisition				$3,612 / Unit	$288,930	$288,930	$330,000	$330,000	$435,600	$330,000	$288,930	$3,612 / Unit				0.0%	$0
Sitework		$1,041,565		$13,020 / Unit	$1,041,565	$1,041,565	$1,041,565	$1,041,565	$719,201	$719,201	$1,041,565	$13,020 / Unit		$1,041,565		0.0%	$0
Direct Construction		$3,971,695	$57.24 /sf	$49,646/Unit	$3,971,695	$3,971,695	$3,971,695	$3,971,695	$4,272,255	$4,114,370	$4,114,370	$51,430/Unit	$59.30 /sf	$4,114,370		3.5%	$142,675
Contingency		$250,000		4.99%	$250,000	$250,000	$250,000	$250,000	$238,494	$238,494	$250,000	4.85%		$250,000		0.0%	$0
Contractor's Fees		$667,689		12.69%	$667,689	$667,689	$667,689	$667,689	$667,689	$667,689	$667,689	12.35%		$667,689		0.0%	$0
Indirect Construction		$676,985		$8,462 / Unit	$676,985	$676,985	$729,000	$729,000	$648,883	$648,883	$676,985	$8,462 / Unit		$676,985		0.0%	$0
Ineligible Costs				$3,950 / Unit	$315,978	$315,978	$137,427	$137,427	$73,578	$73,578	$315,978	$3,950 / Unit				0.0%	$0
Developer's Fees	$0	$1,066,787		15.26%	$1,066,787	$1,066,787	$1,046,006	$1,046,006	$1,046,006	$1,011,287	$1,066,787	14.96%		$1,066,787	$0	0.0%	$0
Interim Financing		$381,000		$4,763 / Unit	$381,000	$381,000	$176,000	$176,000	$353,275	$353,275	$381,000	$4,763 / Unit		$381,000		0.0%	$0
Reserves				$3,026 / Unit	$242,080	$242,080	$145,040	$145,040	$145,040	$145,040	$242,080	$3,026 / Unit				0.0%	$0
UNADJUSTED BASIS / COST	**$0**	**$8,055,720**		$111,284 / Unit	**$8,902,708**	**$8,902,709**	**$8,494,421**	**$8,494,421**	**$8,600,021**	**$8,301,817**	**$9,045,384**	$113,067 / Unit		**$8,198,395**	**$0**	**1.6%**	**$142,676**
Acquisition Cost for Identity of Interest Seller					$0												
Developer's Fee	$0	($18,447)															
Contractor's Fee		$0															
Contingency		$0															
ADJUSTED BASIS / COST	**$0**	**$8,037,273**			**$8,902,709**						**$9,045,384**			**$8,198,395**	**$0**		
TOTAL UNDERWRITTEN COSTS (Applicant's Uses are within 5% of TDHCA Estimate):							**$8,902,709**										

CAPITALIZATION / DEVELOPMENT COST BUDGET / ITEMIZED BASIS ITEMS

Hudson Green, Hudson, 9% HTC #10279

	CREDIT CALCULATION ON QUALIFIED BASIS			
	Applicant		TDHCA	
	Acquisition	Construction Rehabilitation	Acquisition	Construction Rehabilitation
ADJUSTED BASIS	$0	$8,037,273	$0	$8,198,395
Deduction for Other Federal Funds	$0	$0	$0	$0
TOTAL ELIGIBLE BASIS	$0	$8,037,273	$0	$8,198,395
High Cost Area Adjustment		130%		130%
TOTAL ADJUSTED BASIS	$0	$10,448,455	$0	$10,657,914
Applicable Fraction	100.00%	100.00%	100.00%	100.00%
TOTAL QUALIFIED BASIS	$0	$10,448,455	$0	$10,657,914
Applicable Percentage	100.00%	9.00%	100.00%	9.00%
ANNUAL CREDIT ON BASIS	$0	$940,361	$0	$959,212
CREDITS ON QUALIFIED BASIS	$940,361		$959,212	

	ANNUAL CREDIT CALCULATION BASED ON APPLICANT BASIS	
Method	Annual Credits	Proceeds
Eligible Basis	$940,361	$7,757,202
Gap	$921,633	$7,602,709
Original Allocation	$919,550	$7,585,529

FINAL ANNUAL LIHTC ALLOCATION	
Method	Original Allocation
Credits	$919,550
Underwritten Proceeds	$7,585,529

	TOTAL HARD COST COMPARISON					
	APPLICANT			TDHCA		
	Per SF	Per Unit	Total	Total	Per Unit	Per SF
Hard Costs (Direct, Site-work, Off-Sites & Contingency)	$75.86	$65,791	$5,263,259	$5,405,935	$67,574	$77.91
Applicant's Cost/SF Point Election	$85.00					
Hard Costs plus Contractor Fees	$85.48	$74,137	$5,930,948	$6,073,623	$75,920	$87.54