THE HENDRICKSON COMPANY & THE COMMUNITY CONCEPTS GROUP, INC.

MEMORANDUM

To: Board of Directors, Housing Finance Authority of Manatee County

From: Mark Hendrickson & Susan J. Leigh, Financial Advisors

Subject: Update on the Palmetto Senior Project—Requests for Waivers of Personal Guaranties

Date: February 1, 2020

1. The Board approved the project to move forward in early 2019 and a TEFRA hearing was held on May 28, 2019. Bond allocation of $31 million was received and carried forward.

2. The Developer paid the $150,000 Commitment Fee to the Authority and has continued to work through the various local government development and building required approvals. An environmental issue with the site delayed the process—however, the developer indicates that the issue can be worked out with minimal financial impact to the project.

3. The developer presented a revised schedule which would have a credit underwriting report finalized for the March HFA meeting, and a bond closing in early April.

4. Recently, the developer focused on the fact that the HFA requires multiple personal guaranties as part of the financing. The developer concedes that they should have noticed this when they began the process one year ago.

5. Essentially, the developer is refusing to provide any personal guaranties, not because of any regulatory or legal prohibition, but because they do not want to provide them. Instead, they are offering a corporate entity to provide the guaranties. The developer threatens to not do the deal if personal guaranties are required. The Florida Housing Finance Corporation requires the same personal guaranties as does the HFA of Manatee County, as detailed below, on both bond and SAIL loans.

6. A summary of the Guaranties:

   <u>Guaranty of Completion</u>
   The guarantor guarantees that the construction will be completed in substantial accordance with the plan and specifications, in a timely manner. The guarantors also indemnifies the authority from any losses incurred because of the improvements not being completed. The guarantor is typically released at 100% lien free completion.

   <u>Guaranty of Performance or Operating Deficits</u>
   The guarantor guarantees all operating deficits until the property achieves typically 1.15 DSC Ratio for a period of time. Upon this happening, the guarantor is released from the guarantee and the authority has no recourse if the borrower stops making payments except for foreclosure.

Guaranteed of Recourse Obligations and/or Fee Guaranty
The guarantor guarantees the Issuer, Issuers' Servicing Fee and Fiscal Agents Fees. I think on River Trace they signed this with a corporate guarantee and then a minimum five years of fees was required as they did not want to sign personally. Also, it typically includes bad boy acts like misapplication of rents or profits, intentional waste or destruction or damage to development.

Environmental Guarantee or Indemnity Agreement
The guarantor guarantees or indemnifies the authority from all claims demands, costs and any loss from any hazardous materials at, on, in, under, affecting, emanating, or otherwise related to any portion of the property.

7. The developer argues that the credit enhancer and equity investor have accepted the corporate guaranties.

8. First Housing provided the credit underwriter's perspective:
   Please see below on our perspective of personal guarantees and why FHFC and local HFA's have required them as far back as I can remember.

   Personal guarantees are an important part of any transaction, especially as the market expansion lengthens and an economic slowdown is more likely to happen. Most lenders prefer a personal guarantee but given the competitiveness of the current marketplace, they have been forced to settle for corporate guarantees or lose business to their competitors. However, HFA's are in a unique place as they do not typically compete with other lenders and can require personal guarantees.

   One needs to ask why a developer so vehemently does not want to guarantee a property. The answer is that there is immense value in a personal guarantee. If a property finds itself in financial difficulty due to a specific issue with the property or change in the marketplace like in 2008, developers tend to pay more attention to the property when it has a personal guarantee. They are less likely to declare bankruptcy on a personal level versus a corporate level. Also, it is more difficult to collapse one's own net worth then a corporation. This means that a developer can easily strip a corporation's net worth by distributing its assets but if they are personal assets, they are harder to move. As a result, properties with a personal guarantee tend to be better taken care of and often have a lower rate of default.

9. The HFA previously allowed replacement of the personal guaranty for ongoing fees with a corporate guaranty plus an evergreen escrow of five years of HFA fees in conjunction with the River Trace issue. This seems acceptable, so long as ALL fees (not just HFA) are included (trustee/fiscal agent, servicer, compliance and financial monitoring).

10. **Recommendations**: Give guidance to counsel and financial advisors as to whether the Board is open to granting waiver removing personal guaranties on this deal, as a group, or for any specific guaranty. If the board moves in this direction, allow the team to negotiate any terms of replacements for the personal guaranties.

Summary of the Proposed Development as originally presented

Name	**Palmetto Senior**
*Owner Entity**	Palmetto Leased Housing Development I, LLC
Developer/Location	Dominium Development Plymouth, MN
Type	New Construction Mid-Rise
Street Address	705 Haben Boulevard Palmetto
City Council District	Ward 3 Brian Williams Commissioner
Units	224
Bedrooms	357
# of Buildings	1 Building
# of Stories	5 Stories
Bond Request	$26,000,000 $117,117/unit
Total Cost	$43,027,330
Cost Per Unit	$193,816
Land Cost	$2,100,000 $9,459/unit
Acquisition of Building Cost	n/a
Hard Construction Cost	$24,231,590.71 $109,151/unit
General Contractor	TBD
Credit Enhancement	Long-Term Bonds/Freddie Mac structure
Set-Aside Period	20 years
Set-Aside Levels	100% at 60% or less