Financing for Apartments Located in Small Market

Transaction Summary

Date: April 2014

Property Description: A 30 unit, Class C property in above average condition. The property has a good occupancy history.

Location: Property located in a small secondary market.

Buyer: Borrower is financially strong with excellent real estate experience.

Purchase Price: $2,250,000

Requested Loan Amount: $1,375,000 (61.1% LTP)

Financing Issues: The only financing issue was the location of the property in a small secondary market. Several lenders were contacted but most declined to quote because of how slowly the city's apartment market recovered from the Great Recession.

Shown on the following pages are the best four letters of interest.

Apartments Located in Small Market
Loan Quote Comparison

April 2014	Lender #1A	Lender #1B	Lender #2	Lender #3
Loan Amount:	**$1,375,000**	**$1,375,000**	**$1,375,000**	**$1,375,000**
Estimated Value:	$2,250,000	$2,250,000	$2,250,000	$2,250,000
Loan To Value:	**61.1%**	**61.1%**	**61.1%**	**61.1%**
Index Used:	SWAP 5 Year	SWAP 7 Yr	N/A	N/A
Interest Rate Spread	1.660%	2.250%	N/A	N/A
Index Rate	2.000%	2.100%	N/A	N/A
Indicated Interest Rate	**3.660%**	**4.350%**	**4.900%**	**5.430%**
Interest Rate Calculation:	30/360	30/360	30/360	Actual/360
Underwriting Criteria:				
Maximum LTV:	65%	65%	65%	65%
Minimum DSCR:	1.20	1.20	1.25	1.35
Loan Term:	**5 Yr + 25 Yr**	**7 Yr + 23 Yr**	**10 Year**	**15 Year**
Amortization Period:	30	30	30	30
Rate Lock:	Yes	Yes	No	Yes
Length of rate lock:	60 Days	60 Days	N/A	30 Days
When:	At application	At application	N/A	At Loan Approval
Deposit:	1.000%	1.000%	N/A	1.00%
Monthly Loan Constant:	0.4580%	0.4978%	0.5307%	0.5634%
Total Loan Fees (Lender/Mtg Broker):	1.0%	1.0%	1.0%	1.0%
Application Deposit	$3,000	$3,000	$5,000	$4,500
Are costs capped?	Yes	Yes	No	No
To be used for:	3rd Party Reports	3rd Party Reports	3rd Party Reports	3rd Party Reports
Third Party Reports Required				
Appraisal	Yes	Yes	Yes	Yes
Environmental	Yes	Yes	No	Yes
Property Condition Report	No	No	No	Yes
Survey	No	No	No	No
Other Costs				
Processing Fee/Site Visit	Yes	Yes	No	Yes
Lender's Legal Cost Estimate	No	No	No	No
Escrow Impounds				
Property Taxes	No	No	Maybe	No
Insurance	No	No	No	No
Replacement Reserves	No	No	No	Maybe
Prepayment Penalty				
Lock-Out Period	None	None	None	None
Method of Prepayment	**4, 3, 2, 1%**	**5, 4, 3, 2, 1%**	**3, 2, 1%**	**Yield Main.**
Open Period	**Last 25 years**	**Last 23 years**	**Last 7 years**	**Last 90 days**
Recourse/Non-Recourse	**Recourse**	**Recourse**	**Recourse**	**Non-Recourse**

Apartments Located in Small Market
Estimated Sources & Uses Statement

	Lender #1A	Lender #1B	Lender #2	Lender #3
SOURCES				
Loan Amount	1,375,000	1,375,000	1,375,000	1,375,000
Cash From Borrower	895,550	895,550	897,300	898,050
Total Sources	**$2,270,550**	**$2,270,550**	**$2,272,300**	**$2,273,050**
USES				
Cash To Borrower	**0**	**0**	**0**	**0**
Purchase Price	2,250,000	2,250,000	2,250,000	2,250,000
Prorated Property Taxes	0	0	0	0
Financing Charges				
Financing Fee	13,750	13,750	13,750	13,750
Appraisal	0	0	3,500	4,500
Environmental Report	0	0	0	0
Inspection Fee	0	0	0	0
Realty Tax Service Fee	0	0	0	0
Processing Fee	2,000	2,000	0	0
Lender's Legal Fees	0	0	0	0
Lender's Miscellaneous Costs	0	0	0	0
Title Policy Insurance	3,300	3,300	3,300	3,300
Escrow	1,000	1,000	1,000	1,000
Miscellaneous Closing Costs	500	500	750	500
Total Financing Charges	**20,550**	**20,550**	**22,300**	**23,050**
Total Uses	**$2,270,550**	**$2,270,550**	**$2,272,300**	**$2,273,050**

Apartments Located in Small Market
Monthly Cash Flow after Debt Service

No. of Units: 30	Lender #1A	Lender #1B	Lender #2	Lender #3
INCOME				
1. Rental Income	$264,840	$264,840	$264,840	$264,840
2. Vacancy & Credit Loss	($13,242)	($13,242)	($13,242)	($13,242)
3. Net Rental Income	251,598	251,598	251,598	251,598
4. Parking Income	0	0	0	0
5. Other Income	2,198	2,198	2,198	2,198
6. EFFECTIVE GROSS INCOME	**$253,796**	**$253,796**	**$253,796**	**$253,796**
EXPENSES				
7. Property Taxes	24,512	24,512	24,512	24,512
8. Insurance	4,565	4,565	4,565	4,565
9. Repairs & Maintenance	12,983	12,983	12,983	12,983
10. Turnover Expenses	1,516	1,516	1,516	1,516
11. Payroll	12,690	12,690	12,690	12,690
12. Utilities	20,420	20,420	20,420	20,420
13. Trash Removal	14,115	14,115	14,115	14,115
14. General & Administrative	1,338	1,338	1,338	1,338
15. Management Fee	12,690	12,690	12,690	12,690
16. Legal & Professional Fees	1,500	1,500	1,500	1,500
17. Grounds Maintenance	7,102	7,102	7,102	7,102
18. Replacement Reserves	9,000	9,000	9,000	9,000
19. TOTAL OPERATING EXPENSES	**$122,431**	**$122,431**	**$122,431**	**$122,431**
20. % Expense/Effective Gross Income	48.2%	48.2%	48.2%	48.2%
21. Expense Per Unit or Square Feet	$4,081	$4,081	$4,081	$4,081
22. CASH FLOW BEFORE DEBT SERVICE	**$131,365**	**$131,365**	**$131,365**	**$131,365**
23. Monthly Net Income	$10,947	$10,947	$10,947	$10,947
24. Loan Amount	$1,375,000	$1,375,000	$1,375,000	$1,375,000
25. Index Used	n/a	n/a	n/a	n/a
26. Spread	n/a	n/a	n/a	n/a
27. Index Rate	n/a	n/a	n/a	n/a
28. Interest Rate	3.660%	4.350%	4.900%	5.430%
29. Amortization	30	30	30	30
30. Less: Mortgage Payment	**$6,298**	**$6,845**	**$7,297**	**$7,747**
31. CASH FLOW AFTER DEBT SERVICE	**$4,649**	**$4,102**	**$3,650**	**$3,200**

Apartments Located in Small Market
Before and After Tax Return on Equity

	Lender #1A	Lender #1B	Lender #2	Lender #3
PROJECTED TAXABLE INCOME				
NET CASH FLOW BEFORE DEBT SERVICE	$131,365	$131,365	$131,365	$131,365
Annual Interest Expense	50,185	59,646	67,188	74,455
Cost Recovery (Depreciation)	61,358	61,358	61,358	61,358
TAXABLE INCOME	$19,822	$10,361	$2,820	($4,448)
CASH FLOW BEFORE & AFTER TAXES				
Net Operating Income	$131,365	$131,365	$131,365	$131,365
Annual Debt Debt Service	75,574	82,139	87,570	92,962
CASH FLOW BEFORE TAXES	**$55,791**	**$49,226**	**$43,795**	**$38,403**
Tax Liability @ 30%	5,947	3,108	846	(1,334)
CASH FLOW AFTER TAXES	$49,844	$46,118	$42,949	$39,737
RETURN ON EQUITY				
BEFORE TAX	**6.4%**	**5.6%**	**5.0%**	**4.4%**
AFTER TAX	5.7%	5.3%	4.9%	4.5%

DEPRECIATION AND TAX ASSUMPTIONS	
Estimated Value	$2,250,000
Building Value as % of Total Value	75%
Depreciation Schedule	
Apartments	3.636%
Commercial Buildings	2.564%
Ordinary Income Tax Rate:	30%