AGENDA ITEM #2(F)
November 3, 2009

INTRODUCTION

MEMORANDUM

October 30, 2009

TO: County Council

FROM: Linda McMillan, Senior Legislative Analyst

SUBJECT: **Introduction: Resolution to approve County Guaranteed Bond Financing Plan for the Housing Opportunities Commission: MetroPointe Apartments Development**

On September 19, 2006, the County Council approved Resolution No. 15-1609, *Approval of the County's Guarantee of Notes to be Issued by the Housing Opportunities Commission of Montgomery County to Finance the Construction and Permanent Financing of the Wheaton Metro Kiss & Ride Development.* With this authorization, HOC issued $36,350,000 in taxable notes with a term that ended on January 1, 2009. These notes financed what is now called MetroPointe, a 173 unit multifamily rental apartment building in the Wheaton Central Business District. It was expected that before January 1, 2009, HOC would issue long-term bonds and that the proceeds would be used to retire the notes.

On November 25, 2008, the Council adopted Resolution No. 16-779, *Approval of the County's Guarantee of $33,380,000, Housing Opportunities Commission of Montgomery County, Housing Development Bonds, 2008 Issue A, to provide the financing to refund and redeem the outstanding Housing Opportunities Commission of Montgomery County, Housing Development Bonds, 2006 Issue A (Federally taxable) that were guaranteed by the County to provide funding for the Wheaton Metro Kiss & Ride Development*. Economic conditions resulted in HOC being unable to issue long-term debt as was envisioned in the original financing plan and HOC requested, the County Executive recommended, and the Council approved use of the County's guarantee. HOC expected to be able to provide alternative financing for the development on or before January 1, 2010.

On October 20, 2009, Council President Andrews received a request from HOC asking approval for continued use of the County's guarantee for the issuance of $33,075,000 in tax-exempt bonds for two years. In its request, HOC notes that turbulence in the financial markets is continuing and they are unable to obtain the long-term financing as expected. On October 28, 2009, Council President Andrews received the County Executive's recommendation that the Council should approve this request. The County Executive's memo says that the proceeds from these new notes will be used to pay-off the matured notes and no new money is being generated. Because this is the case, the County Executive is again waiving the requirement for a feasibility study, as such a study was completed for the issuance of the 2006 notes. Bond counsel has agreed that a truncated application is appropriate as the project is built and in operation (the building is 97% leased.)

The draft approval resolution is attached at © 4-7 for introduction. The County Executive's recommendation is attached at © 1-3. The request from HOC is attached at © 8-15. The full financing application is not attached to this packet. It is available in the Council's Legislative Information Services office, is available on the Council's website as a part of this agenda item, and will be attached to the resolution if it is approved.

County Code Section 20-34 requires the County Council to hold a public hearing on this request. The law requires a minimum of 15 days notice. The request will be reviewed by the Management and Fiscal Policy Committee on November 23, 2009 and the public hearing and action have been scheduled for November 24, 2009.

f:\mcmillan\hoc\metropointe-intro-nov 3 2009 memo.doc

OFFICE OF THE COUNTY EXECUTIVE
ROCKVILLE, MARYLAND 20850

Isiah Leggett
County Executive

MEMORANDUM

October 28, 2009

TO: Phil Andrews, President
Montgomery County Council

FROM: Isiah Leggett, County Executive

SUBJECT: County Guaranteed Bond Financing Plan for the
Wheaton MetroPointe Apartments Development

In September 2006, then-County Executive Duncan approved the use of the County's bond guarantee to facilitate the financing of the MetroPointe Apartments Development, then known as the Wheaton Metro Kiss and Ride Development. In 2006, bonds were issued in the amount of $36.4 million, which matured on January 1, 2009. Approximately two months prior to the bond maturity, HOC approached the County stating that due to the turmoil in the financial markets, HOC was requesting that the County Executive and the Council again approve the use of the County guarantee for one year. The 2006 notes matured on January 1, 2009 and the proceeds of the new 2008 notes were used to pay off the 2006 notes.

The Wheaton MetroPointe Apartments Development was completed and the grand opening was held on November 13, 2008. Unfortunately, the turmoil in the credit markets continues and it is financially disadvantageous for HOC to fully carry out the original financing plans of the project. Therefore, HOC is again seeking the approval of the Executive and the Council to further use the County's guaranty. This time, the new notes, which will be used to defease the 2008 notes, and will be issued for a two-year period instead of just one year. This will allow HOC more time to complete the permanent financing of the project. Attached for your review are the HOC transmittal letter and Bond Financing Application.

Review of Financing

Pursuant to Section 20-32 of the Montgomery County Code, in order to utilize the Bond Guarantee Program, HOC is to present to the County Executive and the County Council a complete bond financing application. That application is to address 13 facts relevant to the transactions. Some of the facts include:

- Term and conditions of the bonds;
- Estimated bond interest rate, and the basis for the estimate;
- Description of the proposed project with detailed estimates of construction and related costs to bring it to the point of readiness to rent or sell;
- Description of the accounting system for recording and controlling expenditures of bond funds, debt service, operating cost, reserves and revenues;
- Explanation of the use of any reserves relating to bonds issued for the benefit of the project; and
- Explanation of the potential obligations of the county arising from a default with respect to any bonds issued for the benefit of the project.

Upon completion of the Executive's review, the Executive is to submit a recommendation to the Council and comment on the feasibility of the project. A feasibility study was included with the initial Bond Financing Application in 2006, but was waived for subsequent note issues. The feasibility study may be waived by the Executive in the case of projects financed, insured, or assisted by the State or Federal Government.

While each subsequent issuance of notes; that is, in 2006, 2008, and now in 2009, represents a new issuance of notes, the proceeds of each note sale are used to defease the maturity notes. Therefore, there is no new money being generated by subsequent note sales. Essentially, the notes from the original sale are being rolled-over. Section 20-32 does not address, specifically, the possibility of subsequent issues and reissues of the same obligation.

Under these unusual circumstances, County staff and HOC approached the County's bond counsel, McKennon, Shelton, and Henn and asked if the Bond Financing Application could be truncated in light of the fact that the project was built and in operation. Bond counsel agreed that duplication of the original application was not necessary for HOC to be compliant with the Bond Guarantee Program. The attached document was prepared by HOC, in conjunction with bond counsel, and adequately complies with Section 20-32.

Recommendation and Action

It is the intention of the Commission to issue new notes in December 2009 and to again attempt to convert those short-term notes to a permanent long-term debt sometime over the next two years. In order to utilize the County guarantee, the County Code requires that HOC submit both a Bond Financing Application and a feasibility study relative to the proposed project. The Bond Financing Application was truncated and is attached and I am again waiving the feasibility study requirement for this re-financing of the 2008 notes.

I am requesting that the attached resolution authorizing the bond issuance be introduced by the County Council on November 3, 2009, that a date is established for a public hearing to consider this matter, and that the County Council adopts that resolution subsequent to the public hearing. The Department of Finance conducted a comprehensive review of this request and found the proposed MetroPointe Apartment Development re-financing to be an appropriate use of the County's guarantee. Therefore, I recommend that the County Council approve the resolution.

IL/gww

Attachments

cc: Jennifer E. Barrett, Director, DOF

Resolution No.: ______________
Introduced: ________________
Adopted: __________________

COUNTY COUNCIL
FOR MONTGOMERY COUNTY, MARYLAND

By: County Council

SUBJECT: Authority:

(1) to approve the County's Guarantee of not to exceed $33,075,000 Housing Opportunities Commission of Montgomery County Housing Development Bonds, 2009 Issue A

(2) to refund and redeem the outstanding $33,050,000 Housing Opportunities Commission of Montgomery County Housing Development Bonds, 2008 Issue A, that were guaranteed by the County which financed or refinanced the Wheaton Metro Kiss & Ride Development, now known as the MetroPointe Apartments Development.

Background

1. Section 16-201, Division II of the Housing and Community Development Article of the Annotated Code of Maryland, as amended, authorizes Montgomery County, Maryland (the "County") by local law to provide for the guaranty by the County of the principal of and interest on bonds, notes, interim certificates, debentures, or other obligations issued by the Housing Opportunities Commission of Montgomery County ("HOC") to finance the construction and rehabilitation of housing that has rental rates and prices not being offered in adequate quantity in the private sector.

2. Chapter 20, Article VI of the Montgomery County Code establishes procedures for the review and approval of the issuance of HOC notes guaranteed by the County.

3. HOC requested that the County guarantee short term obligations to be issued by HOC for the purpose of providing construction financing for the Wheaton Metro Kiss & Ride Development, a multifamily rental housing development located in Montgomery County, Maryland, now known as the MetroPointe Apartments Development (the "Development"). HOC advised the County that it intended to

4814-0684-9796.3

4

issue long-term revenue bonds, which would not be guaranteed by the County, for the permanent financing of this Development.

4. The County Council adopted Resolution No. 15-1609 on September 19, 2006 that provided the County's full faith and credit guarantee for the planned HOC bond issuance, provided the maximum total interest cost could not exceed $3,366,340 with a rate not exceeding 6.40% on a principal amount not to exceed $36,350,000.

5. On September 28, 2006, HOC issued its $36,350,000 Housing Development Bonds, 2006 Issue A (Federally Taxable) (the "2006 Bonds") for the purpose of financing the costs of constructing the Development, with the guarantee provided by the County (the "2006 Guarantee"). The 2006 Bonds had a maturity of January 1, 2009 and the County's guarantee expired on such date.

6. HOC substantially completed the construction of the Development in October 2008. HOC describes the Development as a Class A apartment building with 173 one, two, and three bedroom apartments, of which 53 are income restricted apartments that provide affordable rental housing. The Development is built on a site that was an underused Metro parking lot in the Wheaton Central Business District (the "CBD"). The Development is located on the southeast corner of Georgia Avenue and Reedie Drive in the Wheaton CBD. The address for the Development is 11175 Georgia Avenue, Wheaton, Maryland, atop the existing Metro Kiss and Ride facility. The building stretches the full block of Reedie Drive, between Amherst and Georgia Avenues, and wraps around a garage that provides parking for the residents and a new Kiss and Ride facility for the Metro. The Development has a current mortgage with an outstanding principal balance of $33,152,608.70.

7. As a result of market conditions, HOC desired to delay the permanent financing and to issue short-term debt to refund and redeem the 2006 Bonds. HOC requested that the County guarantee such short term debt.

8. Under the requirement of Title 16, Division II of the Housing and Community Development Article of the Annotated Code of Maryland, as amended, and Chapter 20, Article VI of the Montgomery County Code, HOC submitted to the County Council and County Executive a Bond Financing Application for the Extension of Financing for MetroPointe Development Apartments, dated October 30, 2008 (the "2008 Bond Financing Application").

9. As required under Chapter 20, Article VI of the Montgomery County Code, the County Executive considered the feasibility of the proposed terms and conditions of the short term debt, and, in a memorandum to the President of the County Council dated November 13, 2008, the County Executive requested that a hearing be held by the County Council to consider the merits of the HOC proposal and further recommended approval of the 2008 Bond Financing Application.

10. A public hearing was held on November 25, 2008, to consider the merits of the 2008 Bond Financing Application. HOC's recommendation regarding the proposed financing was provided at and prior to the public hearing.

11. The County Council adopted Resolution No. 16-779 on November 25, 2008 that provided the County's full faith and credit guarantee for the planned issuance of short term debt by HOC, provided the maximum total interest cost could not exceed $1,481,701 with a rate not exceeding 4.25% per annum on a principal amount not to exceed $33,380,000.

12. On December 11, 2008, HOC issued its $33,050,000 Housing Opportunities Commission of Montgomery County Housing Development Bonds, 2008 Issue A (the "2008 Bonds"), with the guarantee provided by the County (the "2008 Guarantee"), and applied the proceeds of the 2008 Bonds to the refunding and redemption of the 2006 Bonds. The 2008 Bonds have a maturity of January 1, 2010 and the 2008 Guarantee will expire on such date.

13. As a result of continuing market conditions, HOC would like to further delay the permanent financing of the Development and is seeking an additional two-year guaranty of the County (the "2009 Guaranty") for the purposes of guaranteeing the issuance of its short term $33,075,000 Housing Opportunities Commission of Montgomery County Housing Development Bonds, 2009 Issue A (the "2009 Bonds"), the proceeds of which will be applied to the refunding and redemption of the 2008 Bonds.

14. Under the requirement of Title 16, Division II of the Housing and Community Development Article of the Annotated Code of Maryland, as amended, and Chapter 20, Article VI of the Montgomery County Code, HOC submitted to the County Council and the County Executive a Bond Financing Application (the "2009 Bond Financing Application"), attached as Exhibit A and made a part of this Resolution.

15. HOC has confirmed to the County Council and the County Executive (i) the financial stability of the Development, (ii) no event of default has occurred in connection with the 2008 Bonds or the loan of the proceeds of such 2008 Bonds or the Development, (iii) the Development is being used for the purpose for which it was constructed and financed, (iv) the maximum total interest cost to be in effect for the 2009 Bonds as set forth in the 2009 Bond Financing Application, and (v) the documentation and information required by Section 20-33 of the Montgomery County Code in its 2009 Bond Financing Application.

16. As required under Chapter 20, Article VI of the Montgomery County Code, the County Executive has considered the feasibility of the proposed terms and conditions of the 2009 Bonds and, in a memorandum to the President of the County Council dated October ___, 2009, the County Executive requested that a hearing be held by the County Council to consider the merits of the HOC proposal and further recommended approval of the 2009 Guaranty.

17. A public hearing was held on November __, 2009, to consider the merits of the 2009 Bond Financing Application and the request for the 2009 Guaranty. HOC's recommendation regarding the proposed financing was provided at and prior to the public hearing.

Action

The County Council for Montgomery County, Maryland approves the following resolution:

1. The full faith and credit guarantee by Montgomery County, Maryland of the 2009 Bonds to be issued in a principal amount not to exceed $33,075,000 for the benefit of the MetroPointe Apartments Development is approved.
2. The maximum total interest cost on the 2009 Bonds may not exceed $1,405,688 per annum, as calculated using true interest cost on the 2009 Bonds not exceeding 4.25% per annum.
3. The terms of the 2009 Bonds, the purposes for which the proceeds of the 2009 Bonds may be expended, and the method for controlling the expenditures for the development financed by the proceeds of the 2009 Bonds must be in accordance with the 2009 Bond Financing Application and all applicable law.
4. A commercial bank is authorized to serve as Trustee under the Trust Indenture to be executed by HOC in connection with the issuance of the 2009 Bonds. The Trust Indenture related to the issuance of the 2009 Bonds must be approved by the County Executive and the Director of Finance prior to the issuance of the 2009 Bonds.
5. The Director of Finance is hereby authorized and directed to execute and deliver all documents relative to the issuance and the terms of the 2009 Bonds, the County's guarantee herewith approved for the 2009 Bonds and any other documents or certificates thereof as he deems necessary and appropriate to effectuate the purposes of this resolution. This documentation must include an agreement by HOC to repay the county any amounts drawn on the County's guarantee, with interest (calculated at the rate of interest payable on the 2009 Bonds).
6. This resolution takes effect as authorized under Chapter 20, Article VI of the Montgomery County Code.

Phil Andrews, President, County Council   Date

This is a correct copy of Council action.

Linda M. Lauer, Clerk of the Council

copy

HOUSING OPPORTUNITIES COMMISSION
OF MONTGOMERY COUNTY, MD

10400 Detrick Avenue
Kensington, Maryland 20895-2484
(240) 773-9000

October 19, 2009

Honorable Isiah Leggett
County Executive
Montgomery County Council
Executive Office Building
101 Monroe Street
Rockville, Maryland 20850

Re: Bond Financing Application for the Extension of Financing for MetroPointe Apartments (formerly Wheaton Metro Kiss and Ride Development)

Dear Mr. Leggett:

This letter serves to transmit to the County Executive an update to the Bond Financing Application dated November 7, 2008, prepared by Caine Mitter & Associates, Incorporated, Financial Advisor to the Housing Opportunities Commission (HOC) for the MetroPointe Apartments (the Bond Financing Application). The Bond Financing Application was prepared in accordance with Article VI of the Montgomery County Code. Article VI of the Code provides for the use of the County's General Obligation (GO) backing for bonds issued by HOC to finance affordable housing. Article VI also describes the process required to secure the County's approval to use its GO. The submission of the bond financing application describing the transaction and the bonds to be guaranteed by the County is a part of that process. HOC is providing an update to the bond financing application that was prepared in 2008 as part of a request to the County to extend its GO pledge for new tax-exempt Notes to be issued by HOC for the MetroPointe Apartments Housing Development, and we are seeking your recommendation to the County Council of this action.

On September 19, 2006, the County Council adopted Resolution 15-1609, which authorized the use of the County's GO guarantee of HOC's issuance of $36,350,000 in taxable Notes. The Notes were issued in November of 2006 (the "2006 Notes") to finance the construction of the MetroPointe Apartments Development. HOC intended to issue long-term bonds on or before January 1, 2009 and use the proceeds to redeem the 2006 County Guaranteed Notes. However, because of the disruption in the financial markets, HOC was unable to issue long-term bonds at that time, and again sought the approval of the County to extend the term of the County Guarantee for one additional year. On November 25, 2008, the County Council adopted Resolution 16-779, which authorized the issuance of $33,075,000 in tax-exempt Notes (the "2008 Notes"). The 2006 Notes matured on January 1, 2009 and were redeemed in part using the proceeds of the 2008 Notes. A portion of the 2006 Notes were redeemed using an HOC line of credit with PNC Bank. The 2008 Notes are due to mature on January 1, 2010.

of the 2008 Notes. A portion of the 2006 Notes were redeemed using an HOC line of credit with PNC Bank. The 2008 Notes are due to mature on January 1, 2010.

The disruptions which required HOC to seek the County GO support to finance the MetroPointe development have not abated. HOC is therefore requesting that the County agree to extend its GO Guarantee for this transaction for an additional two years. The new County Guaranteed Notes will be tax-exempt in the amount of $33,075,000. Again, it is HOC's intention to issue long-term bonds to effect a permanent financing at the end of this new two-year period. It is expected that given time and with the measures that the federal government is taking, the financial markets should improve during the term of the 2009 Notes. Nonetheless, should the financial markets not improve by the summer of 2011, HOC will again come to the County and request yet another extension of this facility which has been critical to the success of the MetroPointe transaction.

MetroPointe is a 173-unit multifamily rental apartment development located in the Central Business District of Wheaton. The Development was completed in November 2008 and is 97.10% leased. The property provides a mix of affordable and market rate housing at Georgia Avenue and Reedie Drive over the Wheaton Metro Station. Of the 173 rental apartment units, 30 percent of the units, or 53 apartments, are affordable, while the remaining 120 units are rented at market rates. Of the affordable units, two-thirds, or 35 units, are restricted to residents with incomes at or below 50% of the area median. The remaining 18 units have the benefit of project-based housing choice vouchers and serve tenants with incomes at or below 30% of the area median income. HOC believes this transportation-oriented project to be a key component in the County's plan to address its affordable housing needs.

The ownership is structured as two condominiums. One condominium consists of the 120-apartment unit market rate portion, which is owned by Wheaton Metro Development Corporation, a non-profit corporation created and controlled by HOC. The second condominium consists of the 53-apartment unit affordable housing portion, which is owned by a limited partnership and HOC, with HOC serving as the managing general partner. HOC formed the limited partnership so that it could raise funds through the sale of the Low Income Housing Tax Credits to pay a portion of the project's development costs. While there are two condominiums, the project is operated as a single unit. The mortgage loans for the project are endorsed for mortgage insurance by the Federal Housing Administration ("FHA") under its Risk Sharing Program. Having insurance of the mortgages through FHA is an added protection for the County. Should there be a default with the property, HOC would file a claim on the mortgage insurance and use the proceeds to redeem the County's Notes, making any draw for the County's GO pledge remote.

While the property enjoys a good occupancy, it has nonetheless also experienced the impact of the turbulence in the economy, which has required the Commission to continue to provide monetary support in the form of operating and financing reserves. The Commission has committed up to $750,000 from its resources to cover operating deficits and to pay debt service through calendar year 2011, the term of the new GO request. The Commission has also committed to fund potential operating deficits related to the project financing through the term of the Notes for $644,508. Other safeguards include a project replacement reserve to which deposits are made on a monthly basis and a debt service coverage reserve account in the amount of $230,000 from HOC's General Fund Operating Reserve. This account is held until the project achieves 1.10 debt service coverage and 95% occupancy for 12 consecutive months.

This request for continued Montgomery County GO support is in accordance with the requirements of Chapter 20, Article VI of the Montgomery County Code (the "Code"). Section 20-33 of the County Code authorizes the County to guarantee bonds issued by HOC pursuant to the Maryland Housing Authorities Law, constituting Division II of the Housing and Community Development Article of the Annotated Code of Maryland, as amended, (the "Act"). Also, pursuant to the Code, this is to request that the County Executive recommend that the County Council establish a date for a public hearing to consider this matter and adopt a resolution approving HOC's use of this bond guarantee. Paul Shelton, Esquire of McKennon Shelton & Henn LLP, the County's Bond Counsel, for this matter has prepared the resolution for this transaction.

In 2006, the County employed the services of its financial advisor PRAG to review and provide a comprehensive evaluation of this transaction. PRAG's review included an analysis of the market/feasibility and concluded that it was reasonable for the County to proceed to guaranty the Notes to be issued by HOC. The bond financing application and the update provide the most current materials on this transaction and have been made available for review by the County's Department of Finance for the County Executive's Office. HOC's financial advisor has participated in the preparation of the update to the bond financing application. In addition to HOC's continuing financial support for the project, the mortgages for the property are now fully insured by the FHA, making a call on the County's GO more remote. Section 20-33 (c) of the Code provides that "the furnishing of the independent feasibility study or studies may be waived by the County Executive in the case of projects financed, insured, or assisted by State or [the] federal government." Therefore, consistent with the Code, HOC is requesting that the County Executive waive the requirement that HOC provide an independent feasibility study.

It is our intention to issue these Notes on or before December 17, 2009 and use the proceeds to redeem the outstanding Notes on January 1, 2010.

We are asking that you provide the County Council with your recommendation concerning this matter and request that the County Council schedule a hearing to consider this matter at its November 24, 2009 meeting. We would be pleased to meet with you and your staff to respond to questions they may have on this subject or provide additional information.

Sincerely,

Annie B. Alston
Executive Director

cc: Honorable Phil Andrews, President, Montgomery County Council
Jennifer Barrett, Director of Finance, Montgomery County
Richard Y. Nelson, Jr., Director, Department of Housing and Community Affairs

HOC HOUSING OPPORTUNITIES COMMISSION
OF MONTGOMERY COUNTY, MD

10400 Detrick Avenue
Kensington, Maryland 20895-2484
(301) 929-6700

October 20, 2009

Honorable Phil Andrews, President
County Council of Montgomery County
Montgomery County Council
Council Office Building
100 Maryland Avenue
Rockville, Maryland 20850

Re: Bond Financing Application for the Extension of Financing for MetroPointe Apartments (formerly Wheaton Metro Kiss and Ride Development)

Dear Mr. Andrews:

This letter serves to transmit to the County Council an update to the Bond Financing Application dated November 7, 2008, prepared by Caine Mitter & Associates, Incorporated, Financial Advisor to the Housing Opportunities Commission (HOC) for the MetroPointe Apartments (the Bond Financing Application). The Bond Financing Application was prepared in accordance with Article VI of the Montgomery County Code. Article VI of the Code provides for the use of the County's General Obligation (GO) backing for bonds issued by HOC to finance affordable housing. Article VI also describes the process required to secure the County's approval to use its GO. The submission of the bond financing application describing the transaction and the bonds to be guaranteed by the County is a part of that process. HOC is providing an update to the bond financing application that was prepared in 2008 as part of a request to the County to again use its GO pledge for new tax-exempt Notes to be issued by HOC for the MetroPointe Apartments Housing Development, and we are seeking your recommendation to the County Council of this action.

On September 19, 2006, the County Council adopted Resolution 15-1609, which authorized the use of the County's GO guarantee of HOC's issuance of $36,350,000 in taxable Notes. The Notes were issued in November of 2006 (the "2006 Notes") to finance the construction of the MetroPointe Apartments Development. HOC intended to issue long term bonds on or before January 1, 2009 and use the proceeds to redeem the 2006 County Guaranteed Notes. However, because of the disruption in the financial markets, HOC was unable to issue long-term bonds at that time and again sought the approval of the County to extend the term of the County Guarantee for one additional year. On November 25, 2008, the County Council adopted Resolution 16-779, which authorized the issuance of $33,075,000 in tax-exempt Notes (the "2008 Notes"). The

2006 Notes matured on January 1, 2009 and were redeemed in part using the proceeds of the 2008 Notes. A portion of the 2006 Notes were redeemed using an HOC line of credit with PNC Bank. The 2008 Notes are due to mature on January 1, 2010.

The disruptions which required HOC to seek the County GO support to finance the MetroPointe development have not abated. HOC is therefore requesting that the County agree to extend its GO Guarantee for this transaction for an additional two years. The new County Guaranteed Notes will be tax-exempt in the amount of $33,075,000. Again, it is HOC's intention to issue long-term bonds to effect a permanent financing at the end of this new two-year period. It is expected that given time, and with the measures that the federal government is taking, the financial markets should improve during the term of the 2009 Notes. Nonetheless, should the financial markets not improve by the summer of 2011, HOC will again come to the County and request yet another extension of this facility which has been critical to the success of the MetroPointe transaction.

MetroPointe is a 173-unit multifamily rental apartment development located in the Central Business District of Wheaton. The Development was completed in November, 2008 and is 97.10% leased. The property provides a mix of affordable and market rate housing at Georgia Avenue and Reedie Drive over the Wheaton Metro Station. Of the 173 rental apartment units, 30 percent of the units, or 53 apartments, are affordable, while the remaining 120 units are rented at market rates. Of the affordable units, two-thirds, or 35 units, are restricted to residents with incomes at or below 50% of the area median. The remaining 18 units have the benefit of project-based housing choice vouchers and serve tenants with incomes at or below 30% of the area median income. HOC believes this transportation-oriented project to be a key component in the County's plan to address its affordable housing needs.

The ownership is structured as two condominiums. One condominium consists of the 120-apartment unit market rate portion, which is owned by Wheaton Metro Development Corporation, a non-profit corporation created and controlled by HOC. The second condominium consists of the 53-apartment unit affordable housing portion, which is owned by a limited partnership and HOC, with HOC serving as the managing general partner. HOC formed the limited partnership so that it could raise funds through the sale of the Low Income Housing Tax Credits to pay a portion of the project's development costs. While there are two condominiums, the project is operated as a single unit. The mortgage loans for the project are endorsed for mortgage insurance by the Federal Housing Administration ("FHA") under its Risk Sharing Program. Having insurance of the mortgages through FHA is an added protection for the County. Should there be a default with the property, HOC would file a claim on the mortgage insurance and use the proceeds to redeem the County's Notes, making any draw for the County's GO pledge remote.

While the property enjoys a good occupancy, it has nonetheless also experienced the impact of the turbulence in the economy, which has required the

Commission to continue to provide monetary support in the form of operating and financing reserves. The Commission has committed up to $750,000 from its resources to cover operating deficits and to pay debt service through calendar year 2011, the term of the new GO request. The Commission has also committed to fund potential operating deficits related to the project financing through the term of the Notes in the amount of $644,508. Other safeguards include a project replacement reserve to which deposits are made on a monthly basis and a debt service coverage reserve account in the amount of $230,000 from HOC's General Fund Operating Reserve. This account is held until the project achieves 1.10 debt service coverage and 95% occupancy for 12 consecutive months.

This request is in accordance with the requirements of Chapter 20, Article VI of the Montgomery County Code (the "Code"). Section 20-33 of the County Code authorizes the County to guarantee bonds issued by HOC pursuant to the Maryland Housing Authorities Law, constituting Division II of the Housing and Community Development Article of the Annotated Code of Maryland, as amended, (the "Act"). Also, pursuant to the Code, HOC has requested that the County Executive provide the County Council with its recommendations including a request that the County Council establish a date for a public hearing to consider this matter and adopt a resolution approving HOC's use of the County guarantee.

This Bond Financing Application along with the update provide the most current materials on this transaction and has been thoroughly reviewed by the County's Department of Finance for the County Executive's Office. A separate recommendation will be provided by the County Executive.

It is our intention to issue these Notes on or before December 17, 2009 and use the proceeds to redeem the outstanding Notes on January 1, 2010.

We are asking that the County Council schedule a hearing to consider this matter at its November 24, 2009 meeting. We would be pleased to meet with you and your staff of the County Council to respond to questions they may have on this subject or provide additional information.

Sincerely,

for Annie B. Alston
Executive Director

cc: Honorable Isiah Leggett, County Executive, Montgomery County Council
Jennifer Barrett, Director of Finance, Montgomery County
Richard Y. Nelson, Jr., Director, Department of Housing and Community Affairs

UPDATE TO THE NOVEMBER 7, 2008 METROPOINTE BOND FINANCING APPLICATION

(This document is meant to be read in conjunction with the November 7, 2008 Bond Financing Application)

Submittal to the
County Executive and County Council
Montgomery County, Maryland

By
The Housing Opportunities Commission of Montgomery County

Prepared By:
Housing Opportunities Commission

October 21, 2009

THIS IS AN UPDATE OF THE NOVEMBER 7, 2008 METROPOINTE APARTMENTS BOND FINANCING APPLICATION AND IS MEANT TO BE READ IN CONJUNCTION WITH THAT DOCUMENT

OCTOBER 21, 2009

Table of Contents

INTRODUCTION

PROJECT SUMMARY AND OVERVIEW

The purpose of this document is to update the bond financing application prepared on November 7, 2008 for the MetroPointe Apartments Housing Development. The bond financing application was prepared and submitted to the County by the Housing Opportunities Commission ("HOC" or the "Commission") pursuant to Chapter 20 of Article VI of the Montgomery County Code. On September 19, 2006, the County Council adopted Resolution No. 15-1609 that provided the County's full faith and credit guarantee for a planned HOC note issuance (the "2006 notes") to finance the construction of the Wheaton Metro Apartments (now MetroPointe Apartments) development. On November 25, 2008 the County Council adopted Resolution No. 16-779 that provided the County's full faith and credit guarantee for the issuance of short term debt (the "2008 notes") by HOC. The 2008 notes were used to retire the 2006 notes. It was HOC's intention to retire the 2006 notes with a permanent bond issuance in 2008. However, deterioration in the credit markets prevented HOC from proceeding with a permanent bond issuance. Thus necessitating the 2008 note issuance. The financial markets are still in disarray thus limiting HOC's ability to issue permanent bonds for the transaction at this time. The 2008 notes mature on January 1, 2010. It is HOC's desire to re-issue short term two year notes (the "2009 notes") to retire the 2008 notes. The current request is that the County permit HOC to issue two year notes backed by the County's full faith and credit guarantee. The 2009 notes will be used to retire the 2008 notes. It is HOC's intention to issue permanent bonds in December of 2011 which will allow HOC to retire the 2009 notes on January 1, 2012.

The Development is complete and substantially leased and consists of 173 one, two and three bedroom rental apartments, retail space and a garage. Thirty percent of the apartments, or 53 apartments, are affordable and rent-restricted, while the remaining 70%, or 120 apartments, are rented at market rates. Of the affordable apartments, two-thirds, or 35 apartments, are restricted to residents with incomes at or below 50% of the area median income. The remaining 18 apartments have the benefit of project-based housing choice vouchers and serve residents with incomes at or below 30% of the area median income. On October 1, 2009, the Development had occupancy of 97.10%

The Development is a condominium owned by two entities. The 120 market rate apartments, the retail space and the garage are owned by the Wheaton Metro Development Corporation, a nonprofit corporation created and controlled by HOC (the "Corporation"). The 53 affordable housing apartments condominium units are owned by a limited partnership (the "Partnership"). This structure allowed equity to be raised from the sale of Low Income Housing Tax Credits. HOC serves as the managing general partner of the Partnership.

The 2009 Notes will be issued as tax-exempt governmental bonds in the amount not to exceed $33,075,000 and are to mature on or before January 1, 2012.

On or before January 1, 2012, HOC will issue Multifamily Housing Development Bonds (the "Bonds") to provide permanent financing for the Development. The Bonds will not be guaranteed by the County. The Bonds will be tax exempt and will finance the part of the Development owned by the Corporation. The total Development is insured by the Federal Housing Administration (FHA) under its Risk Sharing Program.

THE METORPOINTE APARTMENTS DEVELOPMENT

Housing Opportunities Commission of Montgomery County

Project Background

The Housing Opportunities Commission of Montgomery County (HOC) purchased land including the "Kiss & Ride" parking lot above the Wheaton Metro station from The Washington Metropolitan Area Transit Authority (WMATA) and has constructed MetroPointe Apartments. The project is a mixed income, mixed use transit-oriented development that was conceived as a catalyst for the revitalization of downtown Wheaton. MetroPointe contains 173 Class A apartments, 53 of which are affordable rental housing. Of the 53 affordable apartments, two thirds (or 35 apartments) are restricted to residents with incomes at or below 50 percent of the area median income (AMI). The other 18 affordable apartments have project-based Housing Choice Vouchers issued by HOC which serve tenants with incomes at or below 30 percent of AMI. In partnership with the Montgomery County Department of Health and Human Services, HUD, the Commission on Disabilities and the nonprofit organization Rosaria Communities, six of these 18 apartments have been set aside to serve severely physically disabled residents with spinal cord injuries. These residents formerly lived in nursing homes as there was no accessible housing available that met their needs. HOC included special accommodations such as roll-in showers to house these residents. The affordable apartments have the same layouts as the market-rate apartments. An on-site counselor provides tenant services for all residents, market as well as subsidized, including help with rent and utilities. The remaining 120 units are owned by the Corporation and are rented at market rental rates. The residential portion of the building includes a fitness center, business center, club room, community room, and two landscaped courtyards. The community room is used for resident workshops, after school programs, and future summer activities for the children organized by HOC. Finally, the building has two retail spaces totaling 3,295 square feet.

The unit breakdown of the property is as follows:

MetroPointe Apartments
Unit Breakdown

The 53 affordable units in the complex that are not a part of the Development Corporation, but which are the basis of the public purpose of the overall transaction. These units are owned by a tax credit limited partnership:

The Affordable Apartments	Number of Units	Apartment Area (Sq Ft)	2009 Rent Levels
Project-Based Vouchers			
One Bedroom One Bath	3	717	$1,130
Two Bedroom One Bath	3	1040	$1,288
Two Bedroom Two Bath	9	1058	$1,288
Three Bedroom Two Bath	3	1411	$1,646
Affordable (30%) Total	18		
LIHTC Apartments (50% AMI)			
Studio	1	647	$898
One Bedroom One Bath	30	727	$963
Two Bedroom Two Bath	4	1031	$1,334
Affordable (50%) Total	35		
Total Partnership owned Affordable Units	53		

	Number of Units	Apartment Area (Sq Ft)	2009 Rent Levels
Market Apartments			
Studio	4	586	$1,388
Jr One Bedroom One Bath	3	698	$1,625
One Bedroom One Bath	67	782	$1,704
One Bedroom One Bath w/Den	4	975	$1,978
One Bedroom One Bath w/Loft	7	1121	$2,060
Two Bedroom Two Bath	34	1039	$2,071
Three Bedroom Two Bath	1	1411	$2,585
Market Total	**120**		
Total Apartments	**173**		

The building wraps around a garage that combines resident parking with a replacement Kiss & Ride drop-off and short-term parking that provides WMATA's patrons with direct access to the Wheaton Metro. MetroPointe residents who commute by Metro to work are able to walk downstairs to the Wheaton Metro which is directly accessible from the building by elevator. MetroPointe is located within walking distance of more than two dozen ethnically diverse restaurants and several grocery stores and specialty food stores. The Westfield Wheaton Mall is one block away. The property was substantially completed and was opened for leasing in September, 2008, and reached stabilized occupancy (95%) for the residential units in May, 2009. Construction is now fully completed.

Financing Summary

Financing for MetroPointe was provided by HOC, the State of Maryland, Montgomery County government and Wachovia Bank. HOC issued $33.3 million in tax exempt bonds (which currently are guaranteed by the County) and $2.9 million in taxable bonds to finance MetroPointe. Montgomery County's Housing Initiative Fund provided $3.85 million, plus funding for the on-site counselor. The state provided more than $860,000 in annual 9% tax credit allocation which raised more than $8.4 million in equity from Wachovia. In addition the state provided a $1.53 million Rental Housing Partnership Program loan. Total development costs were $56 million including costs associated with the WMATA portion of the garage. In order to utilize tax-exempt bond financing with 9% Low Income Housing Tax Credits, HOC condominiumized all 173 residential units, with the 53 tax credit units financed with taxable bonds and the remaining 120 units financed with tax-exempt general obligation bonds. This strategy resulted in greatly reduced monthly debt service payments by utilizing tax-exempt bonds on that portion of the project not restricted with tax credits, since combining tax-exempt bonds with 9% tax credits is not permitted.

The bonds that finance the property are secured by a mortgage on the property. The mortgage, in turn, is secured by the operations of the property. The operations of the property are guaranteed by the Commission, and are further backed by FHA mortgage insurance. As such, any risk of bond default with consequent draw on the County guarantee of the bonds is remote.

Project Operations

Leasing began in September, 2008. Stabilized occupancy of the residential units was reached in 9 months, in May, 2009. This was accomplished in spite of significant market challenges:

- An atmosphere of worsening market conditions in the County for occupancy rates and effective rents.
- A high level of competition from other properties in lease-up, including The Veridian and The Portico, which are directly competitive with MetroPointe, plus other properties in lease-up in the nearby Rockville and Bethesda submarkets.

- Competitive pressures that required the offering of lease concessions in the form of free rent. To achieve lease-up, as much as two months free rent was offered on 12 month leases. Similar levels of concessions, and, in some cases, more concessions have been offered at competing properties.
- An unplanned continued necessity to offer lease concessions as units are turning over. This has been exacerbated by the timing of the lease renewals, which are falling heavily into the months of September, 2009 – January, 2010, when 78 of the 120 market rate leases are up for renewal. That is 65% of the leases expiring in a 5 month period during months when leasing is traditionally slowest. The lease renewal effort includes offering longer term leases in an effort to spread the future renewals out so that they are not bunched together in the fall and winter months.

In addition, the leasing of the retail space, which was anticipated to be anchored by Federal Express and to be a significant revenue generator (approximately $125,000 per year in revenue) has proven problematic. Federal Express terminated their lease, and the retail space has thus far provided no revenue contribution. Moreover, the spaces, which were expected to lease in the $40 - $45 per square foot range, are now expected to lease in the $25 - $35 per square foot range. Finally, operating expenses have proven to be higher than projected, especially Rental Expenses and Utilities.

In spite of these challenges and difficulties, the Partnership is operating above the planned level. However, the Corporation, which owns the market rate units, the retail space and the parking garage, and is responsible for operating deficits is not operating at the planned level. For the reasons noted above, the operating deficits have been significant, and are projected to continue for the next 2 to 3 years. The composition of the deficits for the period January 1, 2010 – December 31, 2011 is as follows:

Summary of Operating Projections for Wheaton Metro Development Corp. (MetroPointe)

	CY 2010		CY 2011	
Revenues				
Gross Rents	$	2,633,442	$	2,712,445
Less Vacancy and Concessions		(438,607)		(271,244)
Rent Revenue		2,194,835		2,441,201
Other Income		217,621		264,547
Total Operating Income	$	2,412,456	$	2,705,748
Expenses				
Administration		64,775		67,185
Payroll		216,796		225,467
Utilities		138,408		143,944
Rental Expense		94,965		48,000
Repairs and Maintenance		113,776		118,327
Management Fee		90,888		94,524
Resident Services		10,920		11,357
Taxes & Licenses		32,494		33,794
Insurance		51,752		53,822
Reserve for Repairs and Replacements		30,000		30,000
Total Operating Expenses	$	844,774	$	826,420
NET OPERATING INCOME	$	**1,567,682**	$	**1,879,328**
Debt Service		1,965,424		1,963,794
OPERATING DEFICIT	$	(397,742)	$	(84,466)
Operating Deficit – 2010 – 2011			$	**(482,208)**
Loan Commitment Approved			$	**750,000**

In Calendar Year 2010, the operating deficit is $397,742. There are three principal reasons for the deficit:

1. Vacancy and concessions on the market rate residential units are currently anticipated to run at 16.66%. This results in a rent shortfall from the original plan of approximately $307,000, based on a normalized projected economic vacancy of 5%. As originally planned, no concessions were anticipated. In fact, however, concessions were needed to reach the initial stabilized occupancy level, with as much as 2 months' free rent given. In addition, now that the initial leases are beginning to expire, management is finding that concessions continue to be required in order to retain tenants, and that as much as 2 months' free rent continues to be necessary. Current leasing assumptions for residential market rate units are as follows:
    a. There are 32 Leases expiring in September and October, 2009, 16 have given Notice to vacate.
    b. The units will be vacant for 30 days for all units turning over. A 50% turnover rate is expected.
    c. Free rent for the remainder of 2009 is expected to be 2 free months. This same level of concession is planned through June, 2010, after which no free rent is anticipated.
2. As noted in the description section, the property has two retail spaces. The spaces were planned to have been rented by now, with annual commercial rent of $133,619. The current projection for Calendar Year 2010 for commercial rent is $55,417, a shortfall of $78,202.
3. Rental Expenses are now projected to be $94,965 in Calendar Year 2010. This is $46,965 higher than is projected in 2011, once the property achieves normalized economic vacancy levels and approaches economic stabilization.

In Calendar Year 2011, the operating deficit is projected to decrease to $84,466. The sum of the deficits over the two year proposed Note period is $482,208.

For the first six full calendar years of the property's operations, the current projection is for cash flow as follows:

Year	Net Operating Income	Debt Service	Cash Flow <Operating Deficit>	DSC
2009	$1,126,192	$1,835,643	<$709,485>	0.61x
2010	$1,567,682	$1,965,424	<$397,742>	0.80x
2011	$1,879,328	$1,963,794	<$ 84,466>	0.96x
2012	$1,956,628	$1,962,394	<$ 5,766>	1.00x
2013	$2,007,991	$1,960,994	$ 46,997	1.02x
2014	$2,060,566	$1,959,594	$ 100,972	1.05x

The Commission has provided funding to cover the majority of the 2009 operating deficit, and has approved additional funding of up to $750,000 to cover the remaining anticipated deficits.

While operations for the market rate portion of the project have not been as expected originally or as expected when the 2008 projections were done, the overall level of the operating deficits are manageable. Of the total $1,197,459 projected deficit for the period 2009 – 2012, $709,485, or 59% of the total, has already been paid or will be incurred prior to the end of 2009 by the project, and $489,512 (41% of the total) has been funded . Remaining future deficits for the period of the County guaranty and beyond are currently estimated at $487,974. Any potential risk that the requested guarantee from the County may be called upon is considered remote for the following reasons:

- The operations of the Corporation owned portion of the project, which is what is backed by the County Guarantee, is projected to reach financial stabilization in 2012 and will begin generating cash flow in 2013.
- The tax credit portion of the project, which is owned by the Partnership, is fully stabilized financially already, and is generating cash flow to the Commission, which can be used to fund, in part, the project's operating deficit.
- The projected remaining deficit is based on a continuation of unfavorable market conditions for an extended period, through mid-year 2010. There are indications that the market may be improving.
- The majority of the total deficit has already been funded by the Commission, and the remaining actual deficit is less than $500,000.
- The total exposure under the guarantee is $33,075,000 on a project with a total cost basis of approximately $56,000,000, and an appraised value of the Development of $39,000,000.
- The debt supported by the guarantee is fully insured by FHA, and the FHA policy will be called on before the County's guarantee.

Market Outlook

The overall multifamily markets in the Washington DC Metro Area and Montgomery County remain strong and, in fact, indications are that there will be a shortage of multifamily product as early as 2012. The fundamentals remain strong, and MetroPointe is expected to achieve full stabilization by that time, and can be reasonably expected to generate positive cash flow indefinitely once that position within the market has been achieved. Absorption in the County exceeded 500 units in the second quarter of Calendar year 2009, while supply decreased to the lowest level since December, 2006. Due to a lack of available financing for new construction, there is very little new supply expected to be added to the market in the next 12 months, with only 1,063 units scheduled for delivery to the market in the County in the next 12 months. If absorption continues at the level of the most recent quarter, supply will be in a shortage mode in 18 – 30 months, with significant impact on vacancy and rental rates. This bodes well for the stabilization of MetroPointe, and underscores the need to support the project and to maintain the high quality affordable housing included in the project.

According to the Delta Report, stabilized occupancy in the Washington DC metro market will be at 3.4% by mid-year 2012, down from the current level of 4.3%. The current level of vacancy has remained low at the expense of effective rents, as concessions have become prevalent throughout the market. For the second quarter of calendar year 2009, concessions in the market averaged 13.3% for Class A properties in lease-up. These trends are holding in Montgomery County as well. Vacancy is low, at 4.1% for the second quarter of calendar year 2009, but at the cost of increased concessions, which doubled during the quarter. This situation is reflective of the situation at MetroPointe, where continuing concessions are impacting the operations both directly through economic vacancy, but also indirectly in the form of higher than planned expenditures on marketing. Based on the trends in the broader market and in the County, particularly the high level of absorption coupled with a virtual halt in new construction, operations can reasonably be expected to improve over the next 24 months, as the property achieves a position of final stabilization.

Section 1

TERMS AND CONDITIONS OF THE 2009 NOTES

A. Disposition of the 2009 Note proceeds and all terms of the 2009 Notes will be controlled by the provisions of the Trust Indenture between HOC and the Trustee.

B. The interest on the 2009 Notes will be payable from payments received pursuant to the mortgage loan. On or before January 1, 2012, HOC expects to issue Bonds to provide permanent financing for the Development. The proceeds of the Bonds will be used to pay the principal of and retire the 2009 Notes, releasing the County of its obligation. The Bonds will not be guaranteed by the County.

C. Major Terms of the 2009 Notes:

1. The yield on the 2009 Notes will not exceed 4.25%.*

2. The 2009 Notes will be issued in registered form as to principal and interest.

3. The 2009 Notes may be subject to redemption prior to maturity.

4. The 2009 Notes may be structured to generate original issue premium.

5. The 2009 Notes will be issued in one series as a fixed rate term bond.

6. The 2009 Notes will mature on or before January 1, 2012.

7. The maturity on the 2009 Notes will be structured in a manner that reflects the expected issuance of the Bonds.

8. Interest on the 2009 Notes will be payable semi-annually and on the maturity date of the 2009 Notes.

9. The gross proceeds of the 2009 Notes issued will not exceed $33,075,000.

D. The mortgage loan on the Development is insured under the FHA Risk Sharing Program. The interest rate on the mortgage loan is 4.50%.

- Federal Reserve policy with respect to setting the federal funds target interest rate is the primary driver of short term interest rates. Through announcements and the minutes of the most recent Federal Open Markets Committee meeting, the Federal Reserve has indicated that it does not intend to increase the Fed Funds target during the next several months. As a result of this indication and other market factors, Caine Mitter expects that the yield on the 2009 Notes at the time of pricing will be close to current expectations and does not expect the yield on the 2009 Notes to exceed 4.25%. The yield on the 2009 Notes is expected to be approximately 1.00%.

Section 2

ESTIMATED 2009 NOTE INTEREST RATE

A. The yield on the 2009 Notes is expected to be approximately 1.00%.

B. Federal Reserve policy with respect to setting the federal funds target interest rate is the primary driver of short term interest rates. Through announcements and the minutes of the most recent Federal Open Markets Committee meeting, the Federal Reserve has indicated that it does not intend to increase the Fed Funds target during the next several months. As a result of this indication and other market factors, Caine Mitter expects that the yield on the 2009 Notes at the time of pricing will be close to current expectations and does not expect the yield on the 2009 Notes to exceed 4.25%.

Section 3

ESTIMATED TIMING AND OTHER PROVISIONS CONCERNING THE SALE OF THE 2009 NOTES

A. Estimated Timing

The 2009 Notes are expected to be sold and closed by December 17, 2009. In the event the sale and closing of 2009 Notes cannot occur by this date, the 2009 Notes will be sold at the earliest practical opportunity.

B. Sale Provisions

The 2009 Notes may be sold at public or private sale. In the event the 2009 Notes are sold at public sale, the official "Notice of Sale" will be published in the Daily Bond Buyer in New York, New York, and in a local Montgomery County newspaper. It will contain the following major provisions:

1. The time and place for receipt of bids.
2. A description of the terms of the 2009 Notes, maturity amount and date of issue.
3. A description of the basis for award.
4. A statement that Bond Counsel will provide an opinion as to the validity of the issuance of the 2009 Notes.
5. A statement that the issuance of the 2009 Notes is subject to review and approval by Bond Counsel.
6. A statement that the Official Statements will be available to the successful bidder as soon as practical after the award.
7. A statement that a "Bid Form" is provided for bidding purposes.

Any negotiated sale or private placement sale will be held at a time and under terms acceptable to HOC in accordance with applicable State and County law. It is expected that the 2009 Notes will be sold at negotiated sale.

Section 4
DETAILED ESTIMATES OF
DEBT SERVICE

2009 Note Cash Flow Projections

Two sets of 2009 Note cash flow projections of net operating income, mortgage payments, other available funds and 2009 Note debt service and fees are provided in Appendices B and C.

The first set, provided in Appendix B, reflects the ability of the mortgage loan to satisfy the debt service on the 2009 Notes at the presently anticipated yield of 1.00%.

The second set, provided in Appendix C, reflects the ability of the mortgage loan to satisfy the debt service on the 2009 Notes at the maximum yield of 4.25%.

The Notes are secured by a mortgage loan that is insured under the FHA Risk Sharing Program. HOC expects that net operating income and other available funds will be sufficient to make payments pursuant to the mortgage loan. In addition, the net operating income before debt service is expected to be sufficient to pay interest on the 2009 Notes at both the expected rate and the maximum rate. The proceeds of the Bonds is expected to pay the principal of and retire the 2009 Notes.

Section 5

SCHEDULE OF RESERVES for DEPRECIATION AND MAJOR MAINTENCE

I. Operating Reserve –Up to $1,000,000 was reserved in the development budget to fund initial operating deficits and to pay debt service until the project stabilized. Stabilized occupancy of the residential units was achieved in May 2009. As of the end of calendar year 2009, all of the funding will have been spent for its intended purpose.

II. Operating Deficit Guarantee Loan - The Commission has committed up to $750,000 from its Opportunity Housing Reserve Fund to cover operating deficits and to pay debt service through calendar year 2011.

III. Financing Operating Reserve – Up to $868,508 was reserved by HOC to fund potential operating deficits related to the project financing through January 1, 2010. Of the total amount, $224,000 was drawn in July 2009. HOC has recommitted the balance of the funds, $644,508, for the term of any new County GO backed Notes. HOC reserves the right to reduce this amount to the extent that it is determined that the Development is producing sufficient income to cover financing costs.

IV. Replacement Reserve – Monthly deposits in the amount of $2,500 ($250 per unit per year) commenced in February 2009 and will continue for the life of the mortgage. There have been no draws from the Replacement Reserve since its inception.

V. Debt Service Coverage Reserve – Up to $230,000 has been reserved in HOC's General Fund Operating Reserve until the project achieves 1.10 debt service coverage and 95% occupancy for 12 months.

Section 6

DESCRIPTION OF ACCOUNTING PROCEDURES

The accounting system for recording and controlling expenditures of 2009 Note funds, debt service, 2009 Note costs, reserves and revenues is provided for in the Trust Indenture. HOC has established an accounting system that complies with these requirements, and will coordinate this system with the Trustee for the 2009 Notes.

Requirements of particular significance are as follows:

- All 2009 Note proceeds will be deposited with and disbursed by the Trustee.
- All mortgage payments and net operating income will be paid directly to the Trustee, who will serve as mortgagee for this development.
- Excess revenues accrued will be subject to the terms set forth in the Trust Indenture.
- The Trustee will invest all funds held in trust.
- The Trustee must furnish HOC with reports as provided by the Trust Indenture.

Activity is recorded in a separate general ledger for each HOC property or program. An annual budget and monthly operating statements are produced for each property or program. These monthly reports provide budget to actual comparisons for each property or program. Budget variances outside of established tolerances are reported to the Director of Housing Management monthly and to the Executive Director quarterly.

Section 7

EXPLANATION OF THE USE OF RESERVES RELATING TO NOTES ISSUED FOR THE BENEFIT OF THE PROJECT

No reserves will be established in relation to the 2009 Notes.

Section 8

EXPLANATION OF POTENTIAL OBLIGATIONS OF THE COUNTY

ARISING FROM A DEFAULT WITH RESPECT TO ANY NOTES ISSUED FOR THE BENEFIT OF THE PROJECT

The county will be obligated to pay interest on the 2009 Notes to the extent that payments received pursuant to the mortgage loan are insufficient. The County will also be obligated to pay the principal of the 2009 Notes, if HOC does not issue the Bonds before the maturity of the 2009 Notes.

The payment of interest on the 2009 Notes will be generated from payments received pursuant to the mortgage loan.

The payment of principal of the 2009 Notes is expected to be paid from the proceeds of the Bonds, when the mortgage loan is transferred from the 2009 Notes to the Bonds. In order for the mortgage loan to be transferred from the 2009 Notes to the Bonds, the mortgage loan must (1) have the benefit of FHA Insurance or (2) have the benefit of a Credit Facility constituting a guarantee, surety bond, insurance policy or unconditional, irrevocable direct pay or stand-by letter of credit meeting criteria that, at the time of issuance, will not adversely affect the then current Rating on the bonds or (3) meet, or have the benefit of a Credit Facility meeting alternative requirements such that the financing of such Mortgage Loans will not adversely affect the then current Rating on the Bonds.

HOC has executed a risk-sharing agreement with FHA, which insures the mortgage loan under the FHA Risk Sharing Program and satisfies the criteria for number (1) above. Should the transaction default and HOC, as the mortgagee, file an application for insurance benefits as a result of an initial claim, HUD is obligated to pay the claim. HUD must make all claim payments in cash. The initial claim amount is based on the unpaid principal balance of the mortgage note as of the date of the default, plus interest at the mortgage note rate from the date of default to the date of initial claim payment. The Commission must use the proceeds of the initial claim payment to retire any bonds of any other financing mechanisms for the mortgages within 30 days of the initial claim.

Should the transaction default within the term of the County's guarantee (January 1, 2010 – January 1, 2012) and HOC file an initial claim with HUD, the County's Notes would be redeemed using the insurance benefits.

THE METROPOINTE APARTMENTS DEVELOPMENT BOND FINANCING APPLICATION

Submittal to the County Executive and County Council Montgomery County, Maryland

By The Housing Opportunities Commission of Montgomery County

Prepared By:
Caine Mitter and Associates Incorporated

November 7, 2008

METROPOINTE APARTMENTS
BOND FINANCING APPLICATION

Table of Contents

INTRODUCTION

PROJECT SUMMARY AND OVERVIEW

The purpose of this bond financing application is to describe the extension of a portion of the notes issued by the Housing Opportunities Commission ("HOC") and guaranteed as to the payment of interest and principal by Montgomery County (the "County") to redeem a portion of the notes issued in 2006 (the "2006 Notes"). This extension will be made through the issuance of notes (the "2008 Notes") that will continue the financing of a portion of MetroPointe Apartments (the "Development"), formerly known as the Wheaton Metro Kiss & Ride Development. The Development consists of 173 one, two and three bedroom rental apartments, retail space and a garage. Thirty percent of the apartments, or 53 apartments, are affordable and rent-restricted, while the remaining 70%, or 120 apartments, are rented at market rates. Of the affordable apartments, two-thirds, or 35 apartments, are restricted to residents with incomes at or below 50% of the area median income. The remaining 18 apartments have the benefit of project-based housing choice vouchers and serve residents with incomes at or below 30% of the area median income.

Prior to January 1, 2009, the Development will become a condominium owned by two entities. The 120 market rate apartments, the retail space and the garage will be owned by the Wheaton Metro Development Corporation, a nonprofit corporation created and controlled by HOC. The 53 affordable housing apartments will be owned by a limited partnership (the "Partnership") so that the equity can be raised for the Development from the sale of Low Income Housing Tax Credits. HOC will serve as the managing general partner of the Partnership.

The 2008 Notes are expected to be issued as tax-exempt governmental bonds in an amount not to exceed $33,380,000 and are expected to mature on or before January 1, 2010. A portion of the 2006 Notes in the amount of $2,970,000 will not be extended and will be redeemed using funds under HOC's line of credit with PNC Bank.

On or before January 1, 2010, HOC expects to issue its Multifamily Housing Development Bonds (the "Bonds") to provide long term financing for the Development. A portion of the proceeds of such bonds will be used to retire the 2008 Notes. The Bonds will not be guaranteed by the County. The Bonds will be tax exempt and will finance the part of the Development owned by HOC.

During the term of the 2008 Notes, any additional short term financing and throughout the anticipated long term financing for the Development, the mortgage loans associated with the Development will be insured under the Federal Housing Administration ("FHA") Risk Sharing Program.

METROPOINTE APARTMENTS

Description of Development

The Development is a Class A apartment building with 173 one, two, and three bedroom apartments, of which 53 are income restricted apartments that provide affordable rental housing. The Development is built on a site that was an underused Metro parking lot in the Wheaton Central Business District (the "CBD"). This transportation oriented project is a key component in the County's plan to address its affordable housing problem and to assist in the conversion of an older suburb into a vibrant, urban community. The Development is located on the southeast corner of Georgia Avenue and Reedie Drive in the Wheaton CBD.

Since the project has a large market-rate component, amenities and finishes are at a very high level. There is a fitness center, a business center that houses computers, a fax machine and a copier, a clubroom, two landscaped courtyards for resident use and a 500 square foot community space for an after-school program and other resident services.

Thirty percent of the apartments, or 53 apartments, are affordable, while the remaining 120 apartments are rented at market rates. Of the affordable apartments, two-thirds, or 35 apartments, are restricted to residents with incomes at or below 50% of the area median. The remaining 18 apartments have the benefit of project-based housing choice vouchers and serve tenants with incomes at or below 30% of the area median.

Services for the lower-income tenants are coordinated by a full-time staff member located on site. In particular, this staff person coordinates tenant needs with the many available services at the nearby Mid-County Services Center. Special emphasis is placed on facilitating linkages between residents and public/private community resources that support family stabilization and increase opportunities for training and employment. Programs for adults to increase their economic self-sufficiency are offered. Parental assistance includes an after-school drop-in program where students can use computer stations and do homework in a supervised setting. Other programs aimed at parents include on-site presentations on relevant topics and linkages with off-site resources for services such as childcare and healthcare.

Location

The address for the Development is 11175 Georgia Avenue, Wheaton, Maryland, atop the existing Metro Kiss and Ride facility. The building stretches the full block of Reedie, between Amherst and Georgia, and wraps around a garage that houses parking for the residents and a new Kiss and Ride facility for the Metro. Parking is more than sufficient for all the tenants in the building. There is direct access to the Metro station from both Reedie Drive and the garage. The facade along Georgia Avenue is four and five stories, with several loft units on the top floors.

Description of Site

The site consists of a 2.45-acre parcel at the Southeast corner of Reedie Drive and Georgia Avenue. It includes the existing Wheaton Metro subway station as well as the Metro Kiss and Ride parking facility. The site is bounded to the South by new townhomes and an existing office building, to the West by Georgia Avenue, to the north by Reedie Drive, and to the East by Amherst Avenue. The site supports the 173 multifamily apartments in a four-story building wrapping a parking garage.

Unit Mix and Monthly Rents Including Utilities

The construction plans for the Development provide for an apartment complex with 173 units that wraps around a parking garage. All major utilities are located at the site. The unit mix, the residential rental rates, the unit size, and utility allowances are generally shown below:

Table 1
Unit Mix and Rent Schedules

	Number of Units	Apartment Area (Sq Ft)	2009 Rent Levels	Utility Allowance
Market Apartments				
Studio	4	586	$1,338	
Jr One Bedroom One Bath	3	698	$1,568	
One Bedroom One Bath	67	782	$1,654	
One Bedroom One Bath w/Den	4	975	$1,930	
One Bedroom One Bath w/Loft	7	1121	$2,065	
Two Bedroom Two Bath	34	1039	$1,989	
Three Bedroom Two Bath	1	1411	$2,535	
Market Total	120			
Project-Based Vouchers				
One Bedroom One Bath	3	717	$1,131	$119
Two Bedroom One Bath	3	1040	$1,288	$150
Two Bedroom Two Bath	9	1058	$1,288	$150
Three Bedroom Two Bath	3	1411	$1,647	$179
Affordable (30%) Total	18			
LIHTC Apartments (50% AMI)				
Studio	1	647	$861	$90
One Bedroom One Bath	30	727	$922	$119
Two Bedroom Two Bath	4	1031	$1,107	$150
Affordable (50%) Total	35			
Total Apartments	173			

Eligible Tenants

Of the 173 apartments, 30% (53 apartments) are designated as Low to Moderate Income Apartments. Of the Low to Moderate Income apartments, two-thirds, or 35 apartments, are restricted to residents with incomes at or below 50% of the area median income. The remaining 18 affordable apartments have the benefit of project-based housing choice vouchers and serve residents with incomes at or below 30% of the area median income. The remaining 120 apartments are to be rented at market rents.

Management

The Development is managed for HOC by Bozzuto Management Company of Greenbelt, Maryland. Bozzuto Management Company is part of The Bozzuto Group, which provides a broad range of real estate services, including development, management, homebuilding, landscaping, construction and mortgage services. Bozzuto Management Company manages approximately 11,000 apartments throughout the mid-Atlantic region.

Development Team

HOC assembled a team of consultants that assisted in the design and construction of the Development. The development team includes Bozzuto Development Corporation as developer, Bozzuto Construction Company as general contractor, Torti Gallas/CHK as architect and Bozzuto Management Company as management agent.

Members of the development team brought to the project extensive experience in the development and management of affordable, high-end, and mixed income rental properties. The project is a joint effort of HOC and Bozzuto Development Corporation. Originally intended to be jointly owned, it was decided during the preliminary phases that the project was too small for two owners and that HOC should be the owner. While both parties had a hand in all elements of the development, Bozzuto Development Corporation was primarily responsible for negotiations with the Washington Area Metropolitan Transit Authority ("WMATA"), while HOC was responsible for the financing. The Bozzuto Group was the general contractor for the project and is the management agent.

The Wheaton Metro Development Corporation, a nonprofit corporation created and controlled by HOC, will own the market rate portion of the building.

Bozzuto Development Corporation is the developer of many similar projects, including the Whitney in downtown Bethesda and the Montgomery at Wheaton Metro. HOC has completed two successful projects similar in scope to the mixed-income effort in Wheaton. The Metropolitan, a Class A property also in downtown Bethesda, is a 308-unit high rise tower with a similar unit mix as is planned at Wheaton and with thirty percent of the units at tax credit rates. Strathmore Court, located in Rockville, is another Class A property developed by HOC that contains 75% market units and 25% tax credit units. These projects have been strong performers since inception. In addition, both HOC and Bozzuto Management Company have extensive experience with the special challenges of managing mixed income buildings.

Torti Gallas/CHK, the project architect, has designed a number of buildings in conjunction with Metro facilities. They are one of the premier architectural firms in the Washington area and bring a wealth of residential architectural experience to the job.

Construction Period

Construction commenced in June 2006 and reached substantial completion in October 2008. The property is expected to reach 95% occupancy in December 2008 resulting in a construction and lease-up period of approximately 30 months (the "Construction Period").

Financing

The financing of the construction of the Development was provided through the sale of the 2006 Notes with the full faith and credit guarantee of the County. On or before January 1, 2009, HOC will issue the 2008 Notes and redeem the 2006 Notes to provide financing for the project for up to an additional year. On or before January 1, 2010, the Bonds will be issued to provide permanent financing for the Development. The proceeds of the Bonds will be used to retire the 2008 Notes, releasing the County of its obligation on the 2008 Notes.

HOC's budget for the Development is approximately $56,644,964. Of that amount, $36,350,000 was initially funded with the proceeds of the 2006 Notes, of which $33,380,000 will be refinanced by the 2008 Notes and $2,970,000 will be refinanced using funds under HOC's line of credit with PNC Bank. Subsequently, the 2008 Notes will be refunded by the Bonds. The sale of Low Income Housing Tax Credits associated with the financing for the 53 Low to Moderate Income Apartments is expected to provide $8,486,285. The State of Maryland is expected to provide approximately $1,530,000 through its Partnership Rental Housing Program. Montgomery County provided $3,850,000. The Commission expects to contribute its total developer fee of $4,428,679. Bozzuto Development Corporation will defer approximately $750,000 of its development fee. Additionally, the Commission has authorized loaning up to $1,250,000 to fund initial operating deficits and interest payments during the construction loan period.

Ownership Structure

Subsequent to closing on the permanent financing, the Development will become a condominium owned by two separate entities. The condominium will consist of 173 individual residential units, two retail units, and a garage. The 120 market rate units, the two retail units and the garage will be owned by the Wheaton Metro Development Corporation, a nonprofit corporation created and controlled by HOC. The 53 affordable units will be owned by the Partnership, of which HOC serves as the managing general partner.

SECTION 1

TERMS AND CONDITIONS OF THE 2008 NOTES

A. Disposition of the 2008 Note proceeds and all terms of the 2008 Notes will be controlled by the provisions of the Trust Indenture between HOC and the Trustee.

B. The interest on the 2008 Notes will be payable from the net operating income before debt service received from the Development. On or before January 1, 2010, HOC will issue bonds to provide permanent financing for the Development. The proceeds of the Bonds will be used to pay the principal of and retire the 2008 Notes, releasing the County of its obligation. The Bonds will not be guaranteed by the County.

C. Major Terms of the 2008 Notes:

1. The overall true interest cost on the 2008 Notes will not exceed 4.25%.

2. The 2008 Notes will be issued in registered form as to principal and interest.

3. The 2008 Notes may be subject to redemption prior to maturity.

4. The 2008 Notes may be structured to generate original issue premium.

5. The 2008 Notes will be issued in one series as a fixed rate term bond.

6. The 2008 Notes will mature on January 1, 2010.

7. The maturity on the 2008 Notes will be structured in a manner that reflects the expected issuance of the Bonds.

8. Interest on the 2008 Notes will be payable semi-annually and on the maturity date of the 2008 Notes.

9. The gross proceeds of the combined series of 2008 Notes issued will not exceed $33,380,000.

D. Following the endorsement by FHA under HUD's risk sharing program, the mortgage loan on the Development will be insured under the FHA Risk Sharing Program. HOC expects to issue the Bonds on or before January 1, 2010 and to redeem the 2008 Notes in full on or before January 1, 2010.

SECTION 2

ESTIMATED 2008 NOTE INTEREST RATE

A. The overall true interest cost on the 2008 Notes is expected to be approximately 2.45%.

B. The maximum overall true interest cost on the 2008 Notes will not exceed 4.25%.

SECTION 3

ESTIMATED TIMING AND OTHER PROVISIONS CONCERNING THE SALE OF THE 2008 NOTES

A. Estimated Timing

The 2008 Notes are expected to be sold and closed by December 15, 2008. In the event the sale and closing of 2008 Notes cannot occur by this date, the 2008 Notes will be sold at the earliest practical opportunity.

B. Sale Provisions

The 2008 Notes may be sold at public or private sale. In the event the 2008 Notes are sold at public sale, the official "Notice of Sale" will be published in the Daily Bond Buyer in New York, New York, and in a local Montgomery County newspaper. It will contain the following major provisions:

1. The time and place for receipt of bids.

2. A description of the terms of the 2008 Notes, maturity amount and date of issue.

3. A description of the basis for award.

4. A statement that Bond Counsel will provide an opinion as to the validity of the issuance of the 2008 Notes.

5. A statement that the issuance of the 2008 Notes is subject to review and approval by Bond Counsel.

6. A statement that the Official Statements will be available to the successful bidder as soon as practical after the award.

7. A statement that a "Bid Form" is provided for bidding purposes.

Any negotiated sale or private placement sale will be held at a time and under terms acceptable to HOC in accordance with applicable State and County law. It is expected that the 2008 Notes will be sold at negotiated sale.

SECTION 4

PROJECT DESCRIPTION, CONSTRUCTION AND RELATED PROJECT COSTS

A. Project Description

The Development is a Class A apartment complex with 173 apartments located on the southeast corner of Georgia Avenue and Reedie Drive, directly above the Wheaton Metro Station in Wheaton, Maryland. Thirty-five of the apartments are rented to households with incomes at or below 50% of the area median income, 18 of the apartments are rented to households with incomes at or below 30% of the area median income and the remaining 120 apartments are rented at market rents.

The Development will become a condominium owned by two entities. The 120 market rate apartments, the retail space and the garage will be owned by the Wheaton Metro Development Corporation, a nonprofit corporation created and controlled by HOC. The 53 affordable housing apartments will be owned by the Partnership so that equity can be raised for the Development from the sale of Low Income Housing Tax Credits. HOC will serve as the managing general partner of the Partnership.

The Development consists of approximately 151,030 square feet of residential space for 173 residential apartments and 49,174 square feet of common space and retail space. The apartment mix for the 173 residential apartments is as follows:

5	Studio Apartments
114	One Bedroom Apartments
50	Two Bedroom Apartments
4	Three Bedroom Apartments

In addition to the residential rental apartments, the Development includes a six-level parking garage in the interior of the Development. There are 211 parking spaces for the building's tenants and 61 parking spaces (plus an additional 8 spaces for motorbikes) for the Metro Kiss & Ride facility.

Amenities include two landscaped courtyards for resident use. Amenities within the building include a community room for an after-school program and other resident services; a business center with computers, a fax machine and a copier; a club room and a fitness center. Also, a full-time staff member will provide services for the lower-income tenants, including programs to increase economic self-sufficiency and an after-school program.

Construction commenced in June 2006 and reached substantial completion in October 2008. The property is expected to reach 95% occupancy in December 2008 resulting in a construction and lease-up period of approximately 30 months (the "Construction Period").

The Development is located at Georgia Avenue and Reedie Drive directly above the Wheaton Metro Station. The following exhibits are contained at the end of this bond financing application. The titles of these exhibits are repeated from the table of contents:

Exhibits
- Artists' Renderings of Development
- Location Map
- Street Map
- One-bedroom Unit Floor Plans
- Two-bedroom Unit Floor Plans
- Three-bedroom Unit Floor Plans

B. Construction and Related Project Costs

The total development cost is approximately $56,644,964. The proceeds of the 2006 Notes provided $36,350,000. The sale of Low Income Housing Tax Credits associated with the financing for the 53 Low to Moderate Income Apartments is expected to provide $8,846,285 in equity. The Partnership Rental Housing Program will provide approximately $1,530,000 through its Rental Housing Partnership Program. Montgomery County provided $3,850,000. The Commission expects to contribute its total developer fee of $4,428,679. Bozzuto Development Corporation will defer approximately $750,000 of its development fee. Additionally, the Commission has authorized loaning up to $1,250,000 to fund initial operating deficits and interest payments during the construction loan period.

The projected development costs for the Development, and related project expenses are provided in the Sources and Uses of the Funds statement in Schedule I. Table 2 is a summary of Schedule I.

Table 2
Summary of Sources and Uses

Bond Funded Construction and Related Project Costs

Sources of Funds	
Taxable Financing	36,350,000
Tax Credit Equity	8,486,285
State PRHP Loan	1,530,000
County HIF	3,850,000
HOC Deferred Developer Fee	4,428,679
Bozzuto Deferred Developer Fee	750,000
HOC Loan	1,250,000
	$56,644,964

Uses of Funds	
Acquisition	$ 2,082,500
Construction	37,863,227
Design & Engineering	3,139,576
Development Fee	5,928,679
Financing Fees & Interest	4,552,818
Initial Operating Deficits	1,000,000
Other Costs	2,078,164
	$56,644,964

SECTION 5

DETAILED ESTIMATES OF OPERATING COSTS AND DEBT SERVICE

A. Operating Costs

A summary of the projected operating budget for the Development is presented in Table 3 below:

Table 3
Summary of Operating Budget for MetroPointe Apartments

	2010 After Stabilization
Revenues	
Gross Rents	$ 3,257,735[(1)]
Less Vacancy	(229,555)
Rent Revenues	3,028,181
Resident Services	30,727
Other Income	290,276
Total Operating Revenue	$ 3,349,183
Expenses	
Administration	133,044
Payroll	354,145
Utilities	164,209
Rental Expense	50,000
Repairs & Maintenance	119,236
Management Fee	99,596
Resident Services	13,776
Taxes & Licenses	45,065
Insurance	69,476
Total Operating Expenses	$ 1,048,548
Reserves for repairs and replacements	43,250
Total Expenses	$ 1,091,798
NET OPERATING INCOME	$ 2,257385

(1) Derived from the Rent Schedule provided in Table 1 on page 3.

A Replacement Reserve of $250 per unit ($43,250) has been included in the Operating Budget beginning in the first stabilized year of operations, estimated to be 2010.

B. 2008 Note Cash Flow Projections

Two sets of 2008 Note cash flow projections of income, expenses and 2008 Note debt service are provided in Appendices B and C.

The first set, provided in Appendix B, reflects the net operating income before debt service received from the development and the presently anticipated 2008 Note yield of 2.45%.

The second set, provided in Appendix C, reflects the net operating income before debt service received from the development and the maximum 2008 Note yield of 4.25%.

Prior to the issuance of the Bonds, net operating income before debt service received from the development will be sufficient to pay interest on the 2008 Notes. The proceeds of the Bonds will pay the principal of and retire the 2008 Notes.

SECTION 6

SCHEDULES OF RESERVES FOR DEPRECIATION AND MAJOR MAINTENANCE

I. Development Operating Reserve – Up to $1,000,000 is reserved in the development budget to fund initial operating deficits until the project is stabilized.

II. Financing Operating Reserve – Up to $868,508 is reserved by HOC to fund potential operating deficits that occur during the period of the Note financing through January 1, 2010. HOC reserves the right to reduce this amount to the extent that it is determined that the Development is producing sufficient income to cover financing costs.

III. Replacement Reserve – A replacement reserve of $250 per unit ($43,250 per year) is included in the operating budget beginning in 2009 (upon closing on the permanent financing).

IV. Debt Service Coverage Reserve – Up to $230,000 has been reserved in HOC's General Fund Operating Reserve until the project achieves 1.10 debt service coverage and 95% occupancy for 12 months.

SECTION 7

SCHEDULE OF EXISTING AND POTENTIAL PROJECT SAFEGUARDS

Safeguards continue to exist that insured completion of construction for the Development, cover any defects in the completed work, and assure acceptable project operations and financing costs.

A. Construction Completion Safeguards

HOC assembled a team of consultants that assisted in the design and construction of the Development. The staff of HOC along with the design consultants worked together on all aspects of the project including the development of schematic designs, preparation of construction drawings and bidding documents, selection of a general contractor, and construction management.

During construction, the general contractor, Bozzuto Construction Company provided assurance of completion for the Development in the form of a payment and performance bond in an amount equal to 100% of the construction contract. Upon achieving substantial completion, Bozzuto Construction posted a latent defect bond equal to two and one-half percent of the final contract sum, $897,500, to cover any defects that may occur for a period of one year.

The Development plan included allowances for capitalized interest costs, lease-up reserves and a debt service coverage guarantee until such time as the anticipated lease up period is complete and the project income pays for the operating expense and debt service of the Development.

B. Project Operating Safeguards

Operating safeguards can be viewed from several perspectives. The affordable rent structure in the Development, combined with its attractive location, resulted in a high demand for the units, which will increase over time as housing costs within the County continue to escalate. This demand is expected to result in low vacancy rates, minimizing losses of rental income from vacant units.

Experienced and competent management of the Development serves as an important overall safeguard for the project operation. The Development is managed for HOC by Bozzuto Management Company of Greenbelt, Maryland. Bozzuto Management Company is part of The Bozzuto Group, which provides a broad range of real estate services, including development, management, homebuilding, landscaping, construction and mortgage services. Bozzuto Management Company manages approximately 11,000 apartments throughout the mid-Atlantic region, including the Whitney in downtown Bethesda. As owner, HOC serves as asset manager and will oversee the general management of the property.

C. Organizational Safeguards

HOC was chartered in 1974 through state legislation that reconstituted the Housing Authority of Montgomery County, changing its name to the Housing Opportunities Commission of Montgomery County and broadening its powers. HOC operates under state and local legislation providing it authority to build, own, manage, finance, develop and administer programs serving households unable to compete in the County's high-priced housing market. HOC currently owns, manages or owns and manages 6, 838 rental units.

The Commission is organized into seven functions reporting to the Executive Director: (1) the Executive Division, which is responsible for all of the administrative activities of the Commission, Equal Opportunity, and training, personnel and labor relations, Federal Programs, Information Technology, and Legislative and Public Affairs; (2) the Real Estate Division, which is responsible for development of new affordable housing, preservation of existing affordable housing, acquisition of multifamily properties and moderately priced dwelling units and activities contributing to the revitalization of older neighborhoods in the County; (3) the Finance Division, which is responsible for accounting, budgeting, payroll, maintaining financial records, and filing reports with other governmental agencies; (4) the Mortgage Finance Division, which is responsible for structuring the bond issues to finance the Commission's multifamily and single family programs and the management of mortgage loans under the multifamily and single family loan management programs; (5) the Housing Management Division, which is responsible for maintaining and operating properties of public housing and other assisted and non-assisted properties owned or operated by the Commission and asset management of the Commission's multifamily portfolio; (6) the Resident Services Division, which is responsible for providing social services to residents in properties owned, leased or managed by the Commission; and (7) the Housing Resources Division, which is responsible for administering the Housing Choice Voucher program pursuant to Section 8 of the United States Housing Act of 1937, and providing the community with access to all of the Commission's programs through service centers operated in different parts of Montgomery County.

D. <u>Insurance Safeguards</u>

The mortgage loans associated with the Development will have the benefit of insurance by FHA ("FHA Insurance") under Section 542(c) of the Housing and Community Development Act of 1992, as amended, and the regulations promulgated thereunder (the "Risk Sharing Act") for the term of the 2008 Notes and the resulting short term financing, and throughout the anticipated long-term financing for the Development.

E. <u>Commission Recommendation</u>

HOC has recommended that all of the aforementioned safeguard measures be taken to assure the solvency of the Development.

SECTION 8

DESCRIPTION OF ACCOUNTING PROCEDURES

The accounting system for recording and controlling expenditures of 2008 Note funds, debt service, 2008 Note costs, reserves and revenues is provided for in the Trust Indenture. HOC has established an accounting system that complies with these requirements, and will coordinate this system with the Trustee for the 2008 Notes.

Requirements of particular significance are as follows:

- All 2008 Note proceeds will be deposited with and disbursed by the Trustee.
- All mortgage payments and net operating income will be paid directly to the Trustee, who will serve as mortgagee for this development.
- Excess revenues accrued will be subject to the terms set forth in the Trust Indenture.
- The Trustee will invest all funds held in trust.
- The Trustee must furnish HOC with reports as provided by the Trust Indenture.

Activity is recorded in a separate general ledger for each HOC property or program. An annual budget and monthly operating statements are produced for each property or program. These monthly reports provide budget to actual comparisons for each property or program. Budget variances outside of established tolerances are reported to the Director of Housing Management monthly and to the Executive Director quarterly.

SECTION 9

EXPLANATION OF THE USE OF RESERVES RELATING TO NOTES ISSUED FOR THE BENEFIT OF THE PROJECT

No reserves will be established in relation to the 2008 Notes.

SECTION 10

EXPLANATION OF POTENTIAL OBLIGATIONS OF THE COUNTY ARISING FROM A DEFAULT WITH RESPECT TO ANY NOTES ISSUED FOR THE BENEFIT OF THE PROJECT

The county will be obligated to pay interest on the 2008 Notes to the extent that net operating income before debt service received from the Development is not sufficient. The County will also be obligated to pay the principal of the 2008 Notes, if HOC does not issue the Bonds before the maturity of the 2008 Notes.

The payment of interest on the 2008 Notes will be generated from the net operating income before debt service received from the Development.

The payment of principal of the 2008 Notes will be paid from the proceeds of the Bonds, when the mortgage loan is transferred from the 2008 Notes to the Bonds. In order for the mortgage loan to be transferred from the 2008 Notes to the Bonds, the mortgage loan must (1) have the benefit of FHA Insurance or (2) have the benefit of a Credit Facility constituting a guarantee, surety bond, insurance policy or unconditional, irrevocable direct pay or stand-by letter of credit meeting criteria that, at the time of issuance, will not adversely affect the then current Rating on the bonds or (3) meet, or have the benefit of a Credit Facility meeting alternative requirements such that the financing of such Mortgage Loans will not adversely affect the then current Rating on the Bonds.

HOC has entered into a risk-sharing agreement with the Department of Housing and Urban Development dated as of September 23, 1994, which approved HOC, a "qualified HFA" under the Housing and Community Development Act of 1992, to participate in the Federal Housing Administration Risk Sharing program on two levels. Since September 23, 1994, HOC has processed 21 loans that have been insured by FHA under the Risk Sharing program. HOC expects to execute a risk-sharing agreement with FHA, which will insure the mortgage loan under the FHA Risk Sharing Program.

Summary of Sources and Uses **Schedule I**

MetroPointe Apartments

SOURCES

Taxable Financing	36,350,000	
Tax Credit Equity	8,486,285	
State PRHP Loan	1,530,000	
County HIF	3,850,000	
Deferred Developer Fees	5,178,679	
HOC Loan	1,250,000	
		$ 56,644,964

USES

Construction Contract (Original)	32,626,854	
Off-Site – IMF (Interim Facilities) (Allowance)	300,000	
Total Construction Costs		**32,926,854**
Permits Tap and Other Fees	1,021,953	
WMATA & Residential Signage & Security	136,000	
FF&E Budget Clubhouse/Model Furnishing	239,000	
Construction Contingency	3,539,420	
Total Owner Construction Costs		**4,936,373**
Architect's Design & Supervision	1,597,921	
Civil Engineering	462,463	
Landscape	138,715	
Geotech/Environ/Pre Construction Survey	314,567	
Fire/Code Consultant	42,782	
Lighting Consultant	11,527	
Parking Study	6,058	
Traffic Consultant/Traffic Light Consultant	32,983	
Utility Consultant	64,527	
Misc. Consultants (Signage/Sound/Conceptual, 3rd party consultant)	291,014	
Renderings/Special Models	11,036	
Reimb/Reproduction	65,983	
Soft Cost Contingency	100,000	
Total Design & Engineering Costs		**3,139,576**
Development Loan Interest Expense	126,041	
Construction Period Interest	2,352,985	
Negative Arbitrage	185,569	
Costs of Bond Issuance	908,750	
HOC Financing Fees	727,000	
PRHP Loan Fee	27,650	
CDA Administrative Fee	42,498	
Letter of Credit Fees	575	
Prepaid MIP	181,750	

Total Financing Costs		**4,552,818**
Insurance	401,117	
Title and Recording	145,456	
Legal – Construction Loan Closing	50,000	
Legal – HOC	75,000	
Legal – WMATA and Zoning	367,441	
Miscellaneous Costs	113,591	
Cost Certification	18,000	
Tax Credit Counsel	49,978	
Tax Returns/Audit	16,000	
Syndication Accounting	51,289	
Project Accountant	10,000	
Appraisal	10,500	
Marketing	267,800	
Retail Broker Fee	72,742	
Lease-up	54,250	
Real Estate Taxes	85,000	
Assignment Fee to BDC	250,000	
Operating Deficit	1,000,000	
WMATA – Reimburse lost parking Revenue	40,000	
Total Owners Costs		**3,078,164**
Land	2,082,500	
Total Land		**2,082,500**
Developer's Fee	5,928,679	
Total Developer's Fee		**5,928,679**
TOTAL COSTS		**$56,644,964**
TOTAL DEVELOPMENT COSTS		**$ 56,644,964**

APPENDIX A

HIGHLIGHTS OF THE COUNTY'S RIGHTS AND POWERS AS GUARANTOR OF THE NOTES

This financing plan for The MetroPointe Apartments Development is subject to the review and approval procedures specified in state enabling legislation and County implementing legislation regarding use of the County's guarantee on housing revenue bonds issued by HOC. Under these procedures, the County Executive and County Council may establish the terms and conditions they deem appropriate for the sale of HOC bonds backed by the County's general obligation guarantee.

The following highlights rights and powers of the County, as guarantor of the 2008 Notes, in addition to those described in other sections of the bond financing application.

A. Marketing and Sale of 2008 Notes

The following documents pertaining to the marketing and sale of the 2008 Notes for this financing will be provided to the County's Director of Finance for review and approval.

Negotiated Sale of the 2008 Notes

- Draft Official Statements for the 2008 Notes
- Trust Indenture
- All closing documents pertaining to the County's guarantee on the 2008 Notes

Public Sale of the 2008 Notes

- All of the documents listed for negotiated sale
- Preliminary Official Statements for the 2008 Notes
- Notices of Sale
- Bid Forms

Following the sale of the 2008 Notes, and as soon as possible prior to the scheduled closing on the sale, a complete set of all draft closing documents will be provided to the County's Director of Finance for information purposes. After the closing occurs, a complete set of final closing documents will be provided to the Director of Finance for the County's records.

B. Rights and Powers of the County During the Guarantee Period

This section highlights specific rights of the County during the time County-guaranteed 2008 Notes are outstanding.

1. All notices sent by the Trustee to HOC under the Trust Indenture will be transmitted simultaneously to the County.

2. All changes in the Trust Indenture and any supplemental indentures executed subsequent to the issuance of the 2008 Notes, if any, will be subject to approval by the County.

3. An independent Trustee will be appointed under the Trust Indenture. The County's consent must be provided prior to removal of this Trustee, as well as for the appointment of any successor Trustee.

4. HOC will notify the County in the event that any monthly payment is delinquent. This notification process will take place at any and all times such delinquency occurs during the period when notes guaranteed by the County are outstanding.

5. Five days prior to the due date of each payment of principal of and interest on the 2008 Notes, the Trustee will notify both the County and HOC if the amount of funds then available in the appropriate accounts to make the required payment, plus the amount of any additional funds expected to be received by the due date are insufficient to pay such principal of and interest on the 2008 Notes. In the event sufficient funds are not available or expected to be available under the Trust Indentures to make any payment on the date it is due, this five day period provides an opportunity for either the County or HOC or both to provide the additional funds to the Trustee before the payment date.

6. The mortgagee rights will be vested in the Trustee. In the event of a default under the Deed of Trust and Regulatory Agreement, the Trustee's mortgagee rights may be transferred to the County at its option.

7. If the Trustee determines HOC is not performing in accordance with or observing any of the covenants, promises, stipulations, agreements or conditions under the Trust Indentures for the 2008 Notes which do not pertain to timely payment of principal and interest on the 2008 Notes, but rather to other requirements, the Trustee may not declare an event of default under the Trust Indentures unless:

    a. a notice of default is first mailed to HOC and the County by first class mail;

    b. HOC has been provided a 60 day period to correct the default and has not corrected it during this time; or

    c. if the default cannot be corrected within 60 days, HOC has not instituted action to correct the default or is not diligently pursuing action to correct it.

    Within 30 days of any notice of default under non-monetary provisions of the Trust Indentures, HOC will notify the County of all actions being taken to correct the default, and provide the County the option of participating in these actions.

8. If the County performs on its guaranty by advancing funds to make payments of principal and interest on the notes issued on behalf of the County-owned developments for which HOC is serving as mortgagee, HOC will provide the County the option of accepting an assignment of all of the Commission's rights as mortgagee which are provided in the event of a default under the Deed of Trust and Regulatory Agreement for the development(s) involved.

9. If the County performs on its guarantee by paying the outstanding 2008 Notes in full for the Development, all of HOC's rights otherwise pledged to the Trustee under the Trust Indenture with respect to the development automatically will be pledged to the County.

APPENDIX B

HOC MetroPointe Apartments Development
NOTE CASH FLOWS
Expected Rates
(in dollars)

	Net Operating Income	Proceeds of HOC Bonds	Investment Income on Note Proceeds*	Semiannual Total	Trustee Fee	Note Interest 2.45%	Note Principal	Net Amount
12/15/2008								
1/1/2009			14,836					
2/1/2009	86,469							
3/1/2009	117,466							
4/1/2009	154,488							
5/1/2009	159,363							
6/1/2009	160,705							
7/1/2009	118,715			812,042	2,500	445,252		364,289
8/1/2009	161,410							
9/1/2009	150,986							
10/1/2009	85,135							
11/1/2009	96,039							
12/1/2009	122,523							
1/1/2010	120,645	33,380,000		34,116,738		408,905	33,380,000	327,833
Totals:	1,533,944	33,380,000	14,836	34,928,780	2,500	854,157	33,380,000	692,122

* Assumes 2008 Note proceeds will be invested at 1.0% from delivery until the expected redemption of the 2006 Notes on January 1, 2009.

APPENDIX C

HOC MetroPointe Apartments Development
NOTE CASH FLOWS
High Rates
(in dollars)

	Net Operating Income	Proceeds of HOC Bonds	Investment Income on Note Proceeds*	Semiannual Total	Trustee Fee	Note Interest 4.25%	Note Principal	Net Amount
12/15/2008								
1/1/2009			14,836					
2/1/2009	86,469							
3/1/2009	117,466							
4/1/2009	154,488							
5/1/2009	159,363							
6/1/2009	160,705							
7/1/2009	118,715			812,042	2,500	772,376		37,165
8/1/2009	161,410							
9/1/2009	150,986							
10/1/2009	85,135							
11/1/2009	96,039							
12/1/2009	122,523							
1/1/2010	120,645	33,380,000		34,116,738		709,325	33,380,000	27,413
Totals:	1,533,944	33,380,000	14,836	34,928,780	2,500	1,481,701	33,380,000	64,578

* Assumes 2008 Note proceeds will be invested at 1.0% from delivery until the expected redemption of the 2006 Notes on January 1, 2009.

APPENDIX D

EXHIBITS

ARTISTS' RENDERINGS OF DEVELOPMENT

LOCATION MAP

STREET MAP

ONE-BEDROOM UNIT FLOOR PLANS

TWO-BEDROOM UNIT FLOOR PLANS

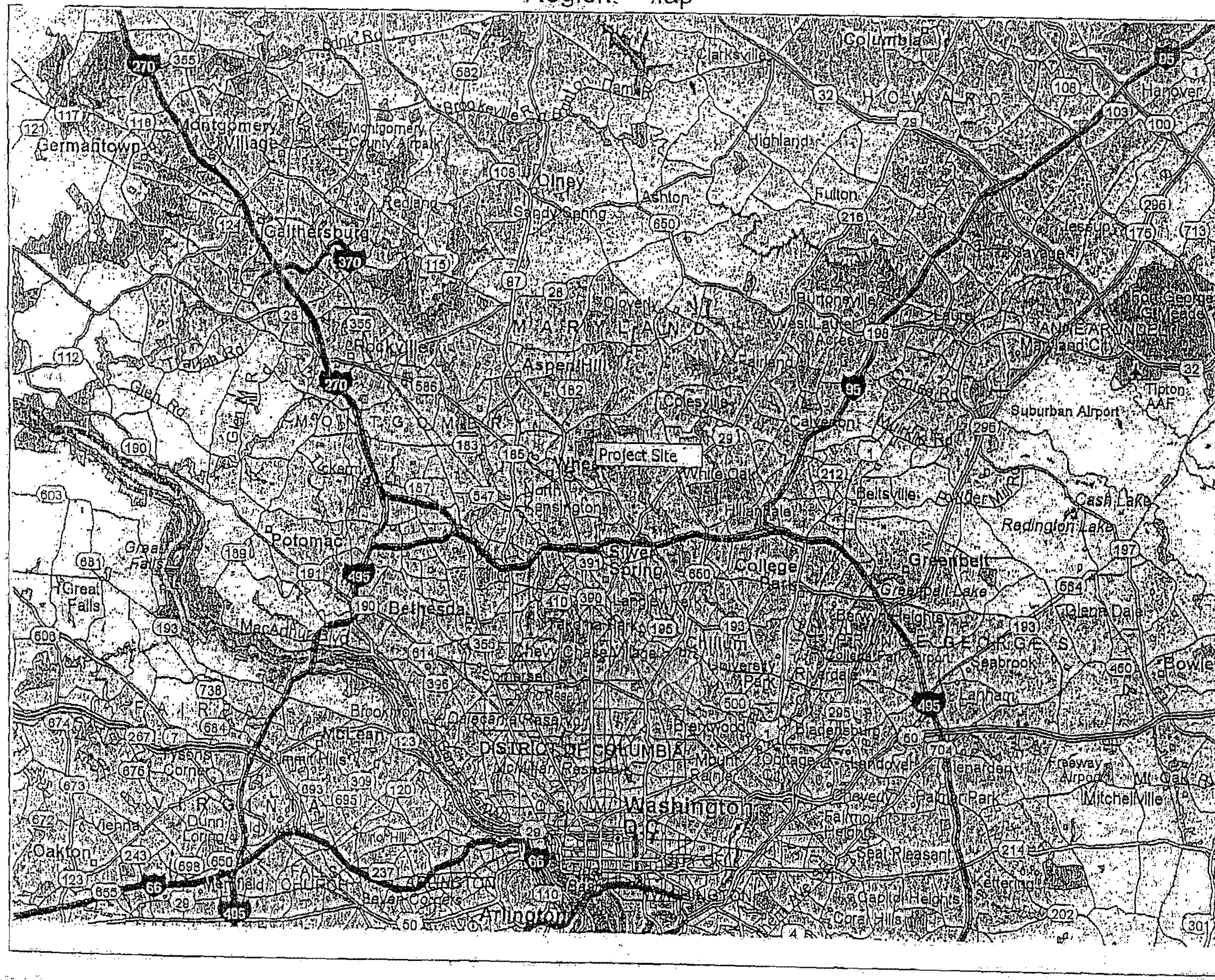
THREE-BEDROOM UNIT FLOOR PLAN

Corner of Reedie Drive and Amherst Avenue

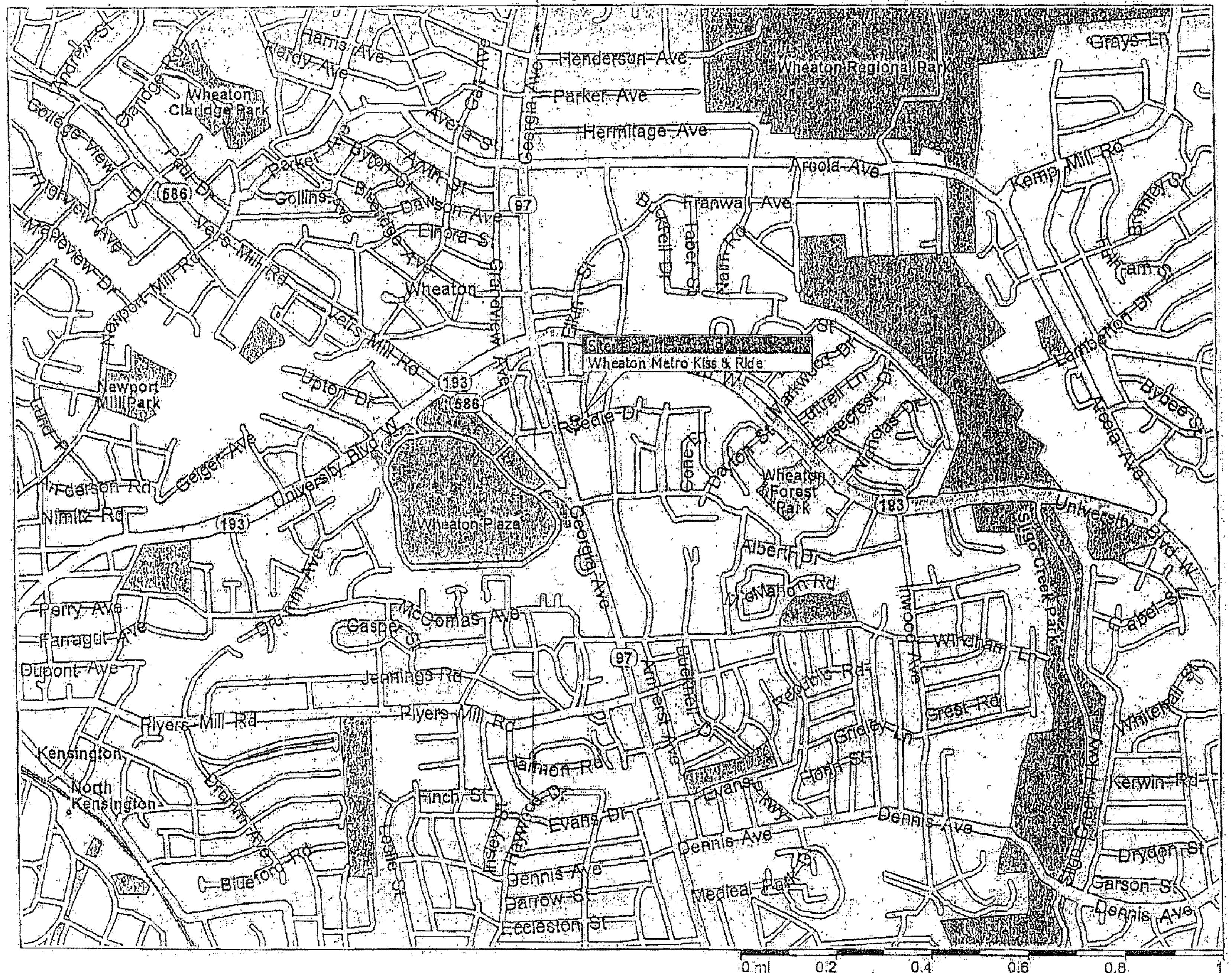
Metro Entry Elevation

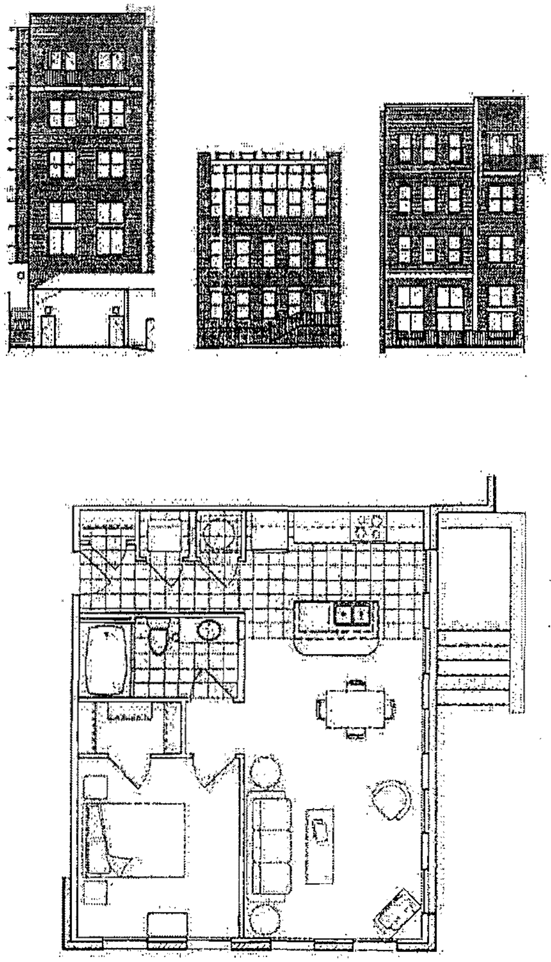
Corner of Georgian Avenue and Reedie Drive

Regional Map

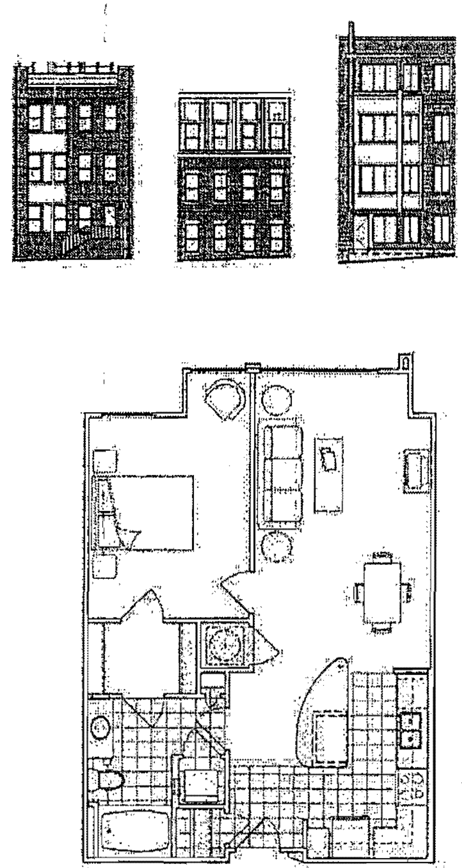


Wheaton, Maryla.. , United States

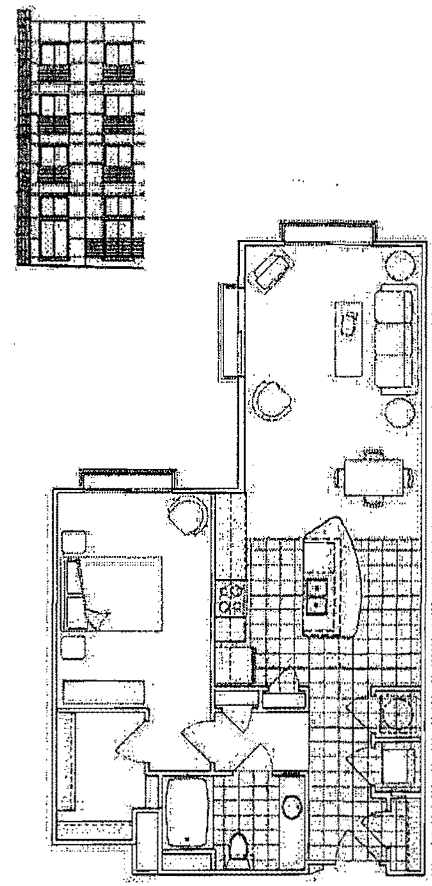




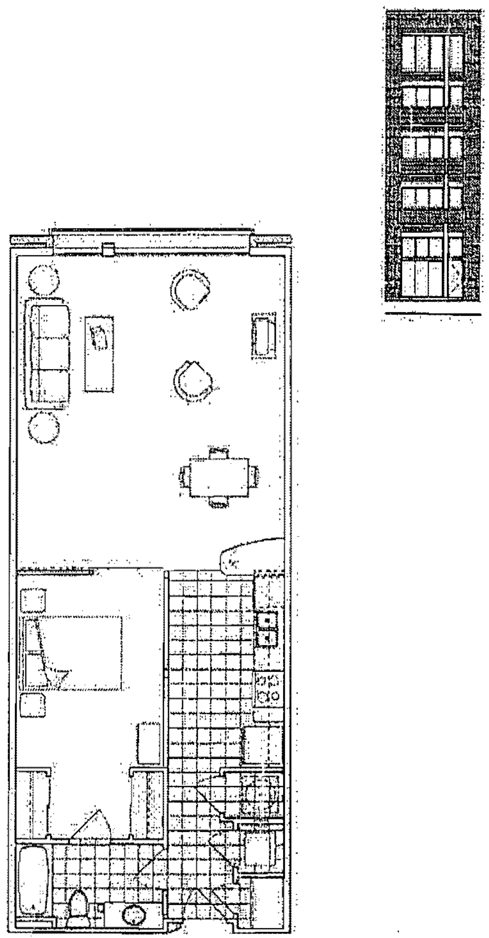
1 BEDROOM
722 Sq. Ft.



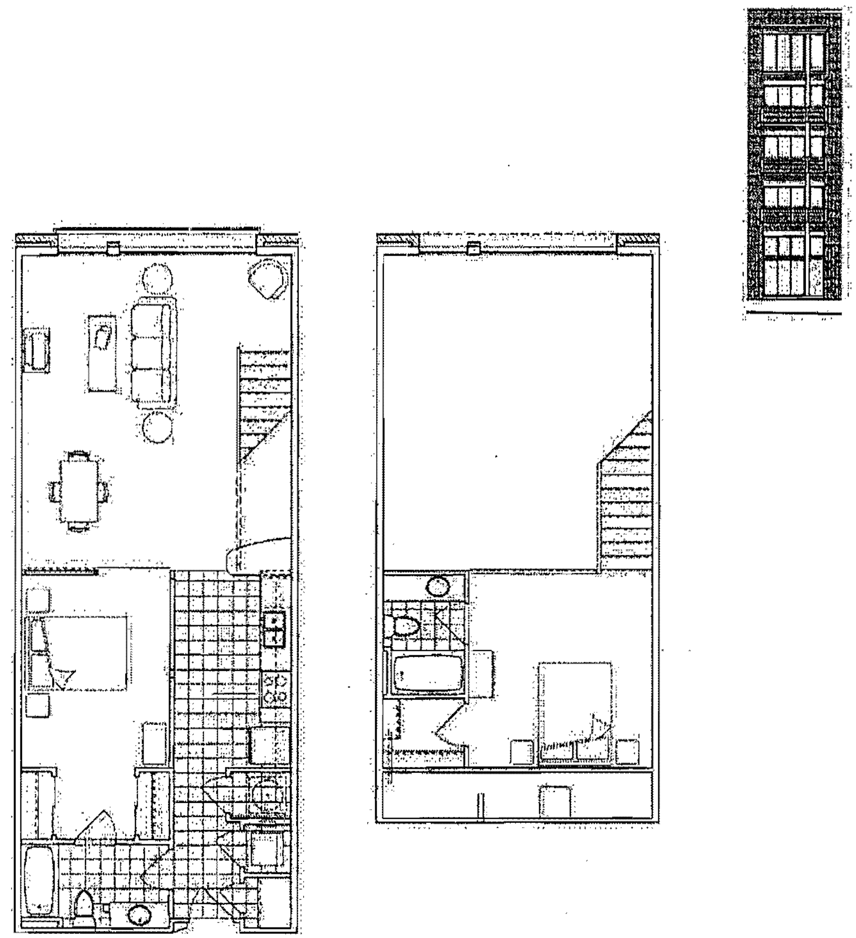
1 BEDROOM
721 Sq. Ft.



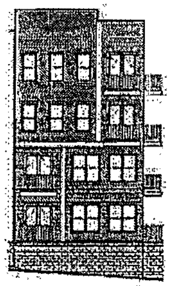
1 BEDROOM
856 Sq. Ft.

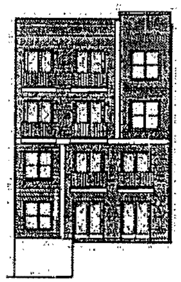


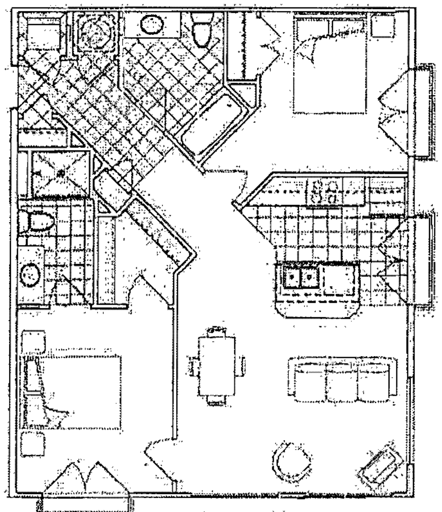
1 BEDROOM
890 Sq. Ft.



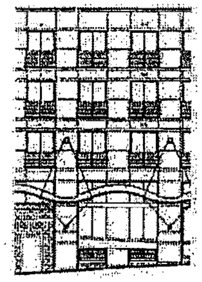
1 BEDROOM LOFT
1150 Sq. Ft.

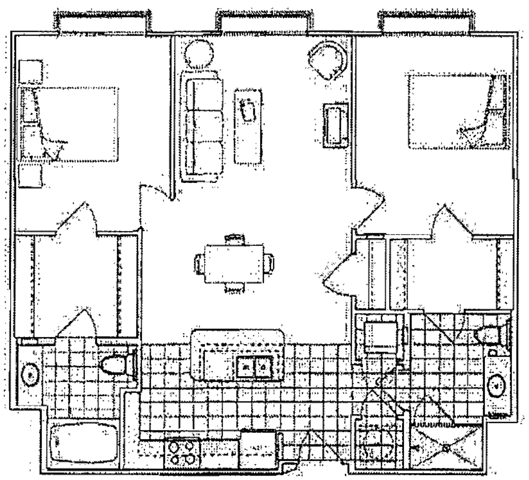




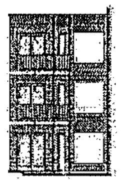


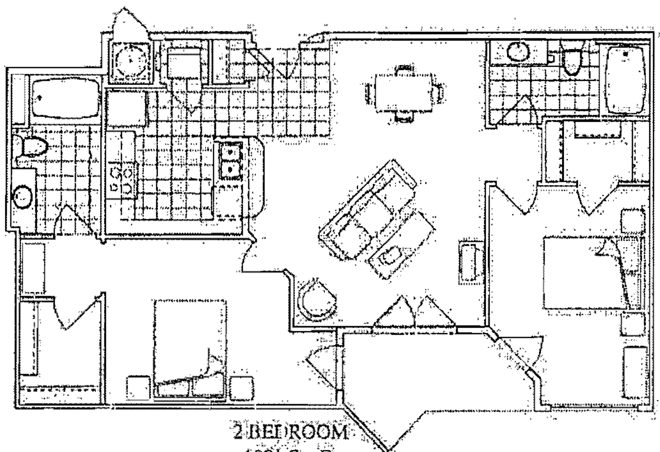
2 BEDROOM
933 Sq. Ft.



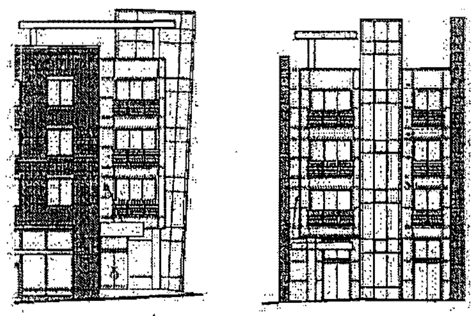


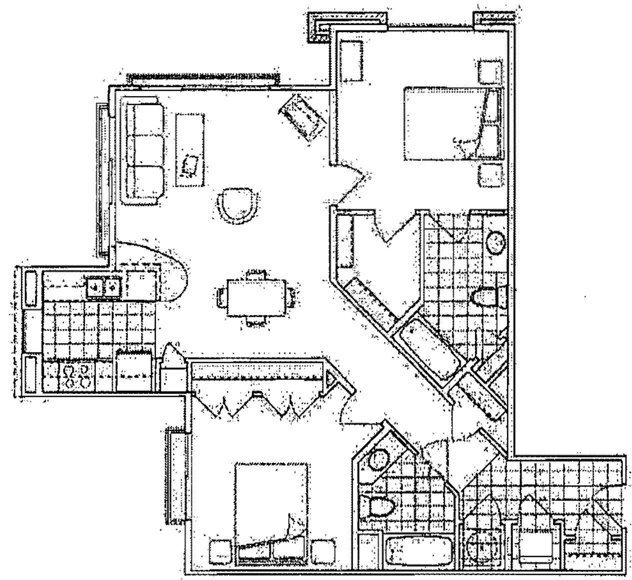
2 BEDROOM
1040 Sq. Ft.



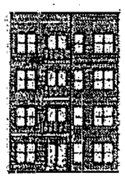


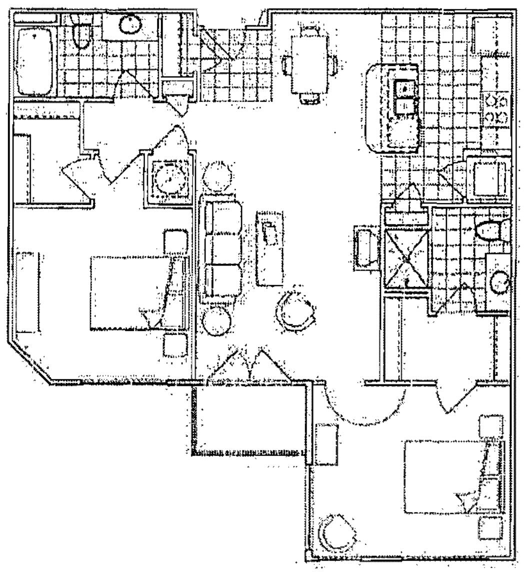
2 BEDROOM
1081 Sq. Ft.



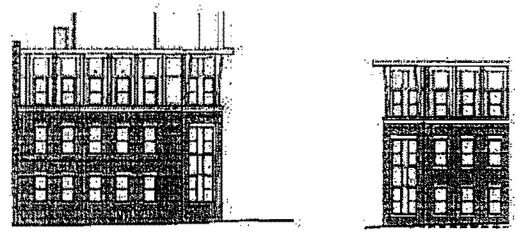


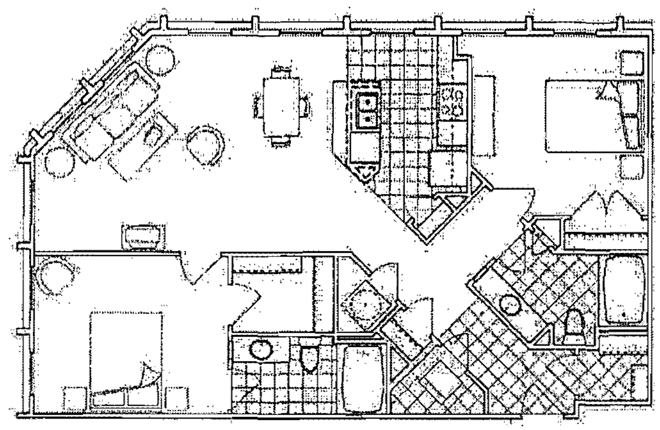
2 BEDROOM
1038 Sq. Ft.



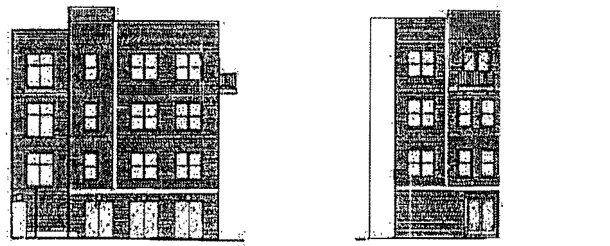


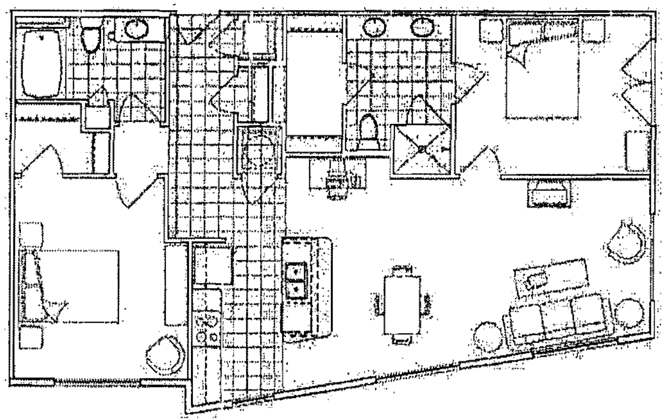
2 BEDROOM
1096 Sq. Ft.

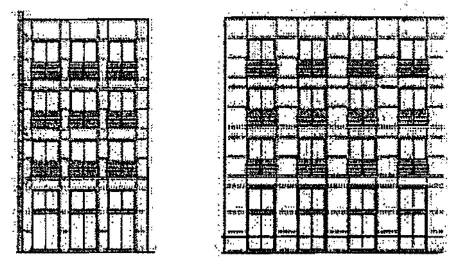




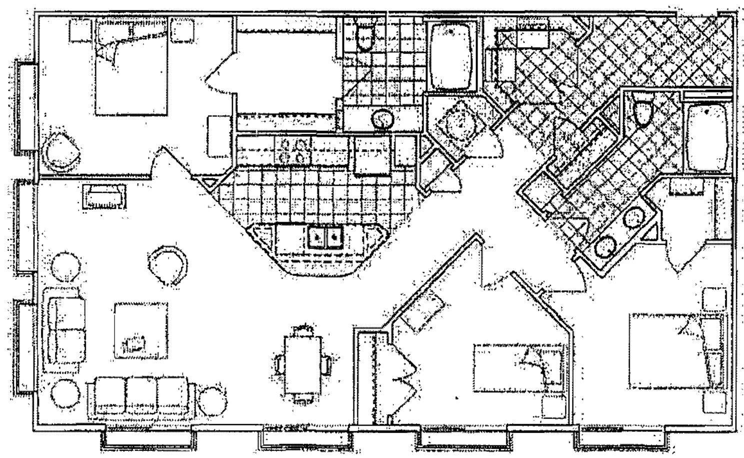
2 BEDROOM
1129 Sq. Ft.







2 BEDROOM
1137 Sq. Ft.



3 BEDROOM
1418 Sq. Ft.