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August 26, 2014

Mr. James Crosby
Deputy Director
City of York
101 South George Street
P.O. Box 509
York, PA 17405

RE: SMYSER STREET APARTMENTS

Dear Mr. Crosby:

As you are aware, I was able to meet with Shilvosky Buffaloe and Leonardo McClarty on Monday, July 7, 2014. The purpose of our meeting was to discuss Smyser Street Apartments Limited Partnership's (Smyser Street) loan with the City of York at which time I had also shared a copy of the Partnership's financial statements. I am providing this letter to give you some background and current information on the property and the Partnership's request for the extension of the loan.

PFG Capital Corporation (PFG) is the general partner of Smyser Street. Since its inception in 1986, PFG has developed 12 affordable housing properties across York, Lancaster and Berks Counties of which three were located within the City of York. PFG continues to manage 6 of these facilities.

The Smyser Street property is located at 201 North Penn Street and consists of 3 one bedroom and 18 two bedroom apartment units (21 total). In 1998 PFG was contacted to review an opportunity for the renovation of this property. Although the property was in significant disrepair, its location and history made it an excellent project for rehabilitation. Since the property was located near some local industry and the City was interested in the betterment of the Penn Street area, the project was a priority for the City. PFG along with its partner and first mortgage lender, The Drivers and Mechanics Bank (now Fulton Bank), along with the City's second mortgage funding put together an affordable housing project for the property. The total cost of the project was approximately \$1,500,000. The project utilized a combination of Federal Tax Credits for providing affordable housing and for the rehabilitation of a qualifying historic structure to attract investment from the bank.

The project was a historic renovation, subject to the applicable Federal and local guidelines. The history on the property dates back to 1907 when the building was constructed as a factory owned and operated by United Cigar Manufacturing Company. Over the next 25 years, the building was owned by two different companies and was last used to manufacture cigars in 1932. Thereafter, the first floor of the building was used for printing and the top two floors were leased to several

clothing manufactures until 1948. The building was sold to the Carl Dallmeyer family in 1956 and was used by their company, Superior Sewing, through the 1960's and was then left vacant for many years.

Upon completing the historic renovation in 1999, the 21 affordable apartments were quickly occupied by qualifying individuals and families. To date, the property has maintained a better than 99% occupancy rate with a very low turnover of apartments. The project also maintains compliance with the affordable housing / low income rules and regulations set forth by the Pennsylvania Housing and Finance Agency as well as the restrictions under the City of York's loan.

Although the property has experienced very high occupancy, it has not experienced great financial success. Since we pay the utilities for the tenants and since these and other operating costs are much higher than we originally projected, the property operates on a very tight margin. Both the general and limited partners have foregone fees and principal payments in the past to cover the construction of the exterior stair tower, high operating costs as well as to make sure that there are sufficient funds to cover capital expenses. Subject to the approval of the loan extension, we plan to continue the capital expenditures necessary to maintain the property.

The City of York loan documents were originally structured to allow for an extension and for the property to remain affordable. The Partnership is requesting that the City exercise its option to cease the accrual of interest, forgive 1/15 of the accrued interest per year over the next fifteen (15) years and delay the maturity on the loan until twenty (20) years after the end of such additional fifteen (15) year period as per the existing Promissory Note. In the past, we have extended similar loans for our other projects. I have modified and attached one of these extension agreements for the City of York to execute.

Upon your receipt and review of this information, please feel free to contact me should you find that you require additional information.

Sincerely,

A handwritten signature in blue ink that reads "T. Scott Forry". The signature is written in a cursive, flowing style.

T. Scott Forry, CPA
Vice President

Enclosure(s)

Cc: Leonardo McClarty, Director Economic & Community Development (email)
Shilvosky Buffaloe, Deputy Director Economic Development (email)
Daniel U. Dygert, President PFG Capital Corporation

**RESOLUTION TO EXTEND THE TERM
OF THE MORTGAGE BETWEEN
THE CITY OF YORK AND
SMYSER STREET APARTMENTS LIMITED PARTNERSHIP**

WHEREAS, the City of York, Pennsylvania entered into a Second Revised and Restated Rental Rehabilitation Program Mortgage Agreement (Mortgage) and Second Revised and Restated Rental Rehabilitation Program Promissory Note (Note) with Smyser Street Apartments Limited Partnership on December 7, 1998 for the property at 201 N. Penn Street, York, PA 17402, known as Smyser Street Apartments, a 21-unit affordable rental housing development; and

WHEREAS, the aforesaid Note becomes due and payable January 1, 2015; and

WHEREAS, Smyser Street Apartments Limited Partnership has requested the City to cease the accrual of interest, forgive 1/15 of the accrued interest per year over the next fifteen (15) years and delay the maturity on the Note until twenty (20) years after the end of such additional fifteen (15) year period as referenced in the Note and Mortgage;

NOW, THEREFORE, BE IT RESOLVED, by the City of York, Pennsylvania, that the loan between the City of York and Smyser Street Apartments Limited Partnership as evidenced by the Mortgage and Note be extended as requested.

Approved this _____ day of _____, 2014.

ATTEST

CITY OF YORK
