The following questions were submitted to the Developer [*The Developer's responses are in italics below*]:

1. What is the public purpose to support the consent by the City to the Additional Advance? *The additional loan proceeds will assist with payment of the deferred developer fee (DDF). This is important because the DDF was included in 'basis' for the awarded tax credits with the requirement that it be fully paid within the compliance period. Failure to do so opens the project to tax credit recapture, which triggers other adverse significant impacts ranging from equity adjustments to a worst-case scenario of possible foreclosure. These outcomes adversely affect the long-term viability of the project. The long-term viability of the project is important and beneficial to the City of Mesquite for the following reasons:*

    - *It provides a crucial supply for the much-needed affordable housing in the City of Mesquite;*
    - *It was and still remains an important piece of the Gus Thomasson Revitalization Project; and*
    - *It remains on the tax roll for the City providing important property tax (and soon sales tax income from the retail space) for the City.*

2. What will the Additional Advance be used for*? 98 percent of the loan proceeds will go to pay the DDF and 2 percent to a construction note.*

3. What is the DDF*? The DDF is the portion of the developer fee unpaid at construction completion and used to complete the sources and uses for the project at conversion of the construction loan to a permanent loan. The developer fee is part of the eligible basis, which determines the amount of tax credits awarded to the project.*

4. Where is the requirement that the DDF be fully paid within the compliance period? *The requirement to pay off the DDF in the compliance period is a provision of the tax credit program (contained in Section 42 of the IRS Code and TDHCA Rules) and not within the control of the lender.*

5. What is the compliance period? *The program rules provide for a 15-year compliance period.*

6. Please explain: (i) your statement that the failure to pay the DDF opens the project to tax credit recapture; and (ii) what are the adverse significant impacts as a result of the failure to pay the DDF. *Where the DDF is not fully paid in the compliance period, it is subject to exclusion from the project's eligible basis. The tax credits awarded to a project is a function of the project's eligible basis. Thus, a reduction in the eligible basis by the exclusion of the developer fee will lead to a reduction in tax credits awarded to the project. This reduction leads to a recapture of prior awarded credits due to the loss of eligible basis. Awarded tax credits are sold to investors for equity investment in the project. A recapture of tax credits (already sold to investors, since 2014 for this project) will lead to a downward adjustment in equity capital and trigger a refund of equity (tied to the recaptured tax credits) and resulting damages. Depending on the magnitude of such*

recapture and the ability of the property to afford the resulting consequences, this could lead to foreclosure among other dire outcomes.

7. What is the current unpaid balance of the Bank loan? *Approximately $6.6M*.