Department of Housing and Community Development ("DHCD")

Community Development Administration ("CDA"),

Maryland Housing Fund ("MHF")

Section One: Neighborhood Business Loan Program – New Neighborhood Business Works Program ("NBW", "Program") Description

I. Introduction and Background

The Department of Housing and Community Development has a long history of financing small businesses in Maryland. Through its flagship small business lending program, Neighborhood BusinessWorks (NBW), DHCD has invested in small businesses throughout the State of Maryland for over 20 years.

All of the existing business loans were funded with State-appropriated capital including repayments on loans within the existing portfolio. NBW has historically played a role as "gap" lender for small businesses in Sustainable Communities. These funds have enabled NBW program to make loans to small businesses in an approximate total volume of $5 million per year. Currently, the NBW loan portfolio includes 158 loans with an aggregate outstanding principal balance in excess of $20 million. The loan portfolio's good performance was partly assured through flexible lending terms as well as Department's ability to modify some of the loans to better fit with the changing business pro-forma. The delinquent loans represent less than 1% of the total outstanding legacy loan portfolio.

In 2017, NBW began underwriting business lending projects under the new Neighborhood Business Loan Program ("NBLP") in both Sustainable Communities and Priority Funding Areas, which are broader than the historically targeted Sustainable Communities. For definitions and statutory reference on both see this Section under *II. Five Main Pillars of Neighborhood Business Loan Program.*

The new NBLP is set up to make either senior or subordinate loans, or a combination of both. It is CDA's intent to use senior loan portfolio as collateral for debt purchasers. CDA may pursue securitizing subordinate loans as well.

NBW program has an established turn-key program management infrastructure enabling the program staff to be very nimble and capable of rapidly deploying financing resources in an ad hoc manner in times of great and acute need. Most notable examples of that are the successful roll-out of business recovery lending programs following the civil unrest in Baltimore City and historic flooding in Ellicott City. By reacting quickly and effectively, NBW was able to attract additional State funding to support these initiatives from the Rainy Day Fund ($1.5 million for Baltimore City), the Catastrophic Relief Fund ($2.5 million for Ellicott City) and the Video Lottery Terminal Fund ($2.5 million for Ellicott City).

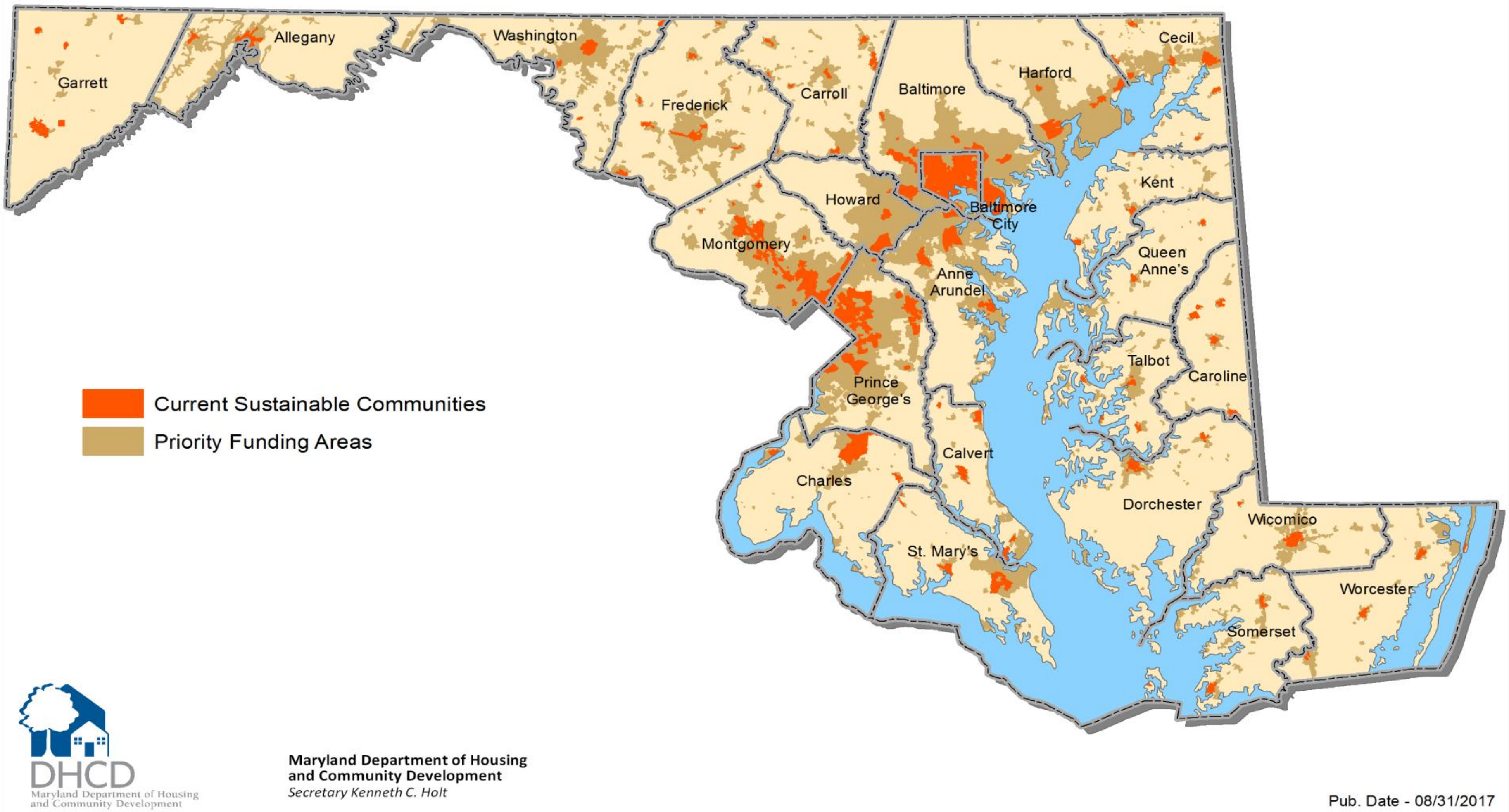
NBW loans are originated using industry-standard underwriting criteria, including the analysis of the credit worthiness of the borrower, the market position of the assisted businesses, adequacy of collateral, and the soundness of the business plan and management team of the borrower. The Program has an on-line application process to facilitate loan intake and underwriting. All NBW projects are evaluated based on their revitalization impact on the community including, among other things, the elimination of blight, catalytic redevelopment stimulus and job retention/creation.

II. Five Main Pillars for Neighborhood Business Loan Program

1) The Program's overall financing structure and cost of borrowing to end-users is designed to be fair and competitive as well as fulfill the unmet demand in the marketplace. The loans will be required to fund projects in traditionally underserved areas defined as Priority Funding Areas per § 5–7B–02 of the State Finance and Procurement Article and Sustainable Communities per § 6–205 of DHCD's Article, per Title 5, Subtitle 13 of the Economic Development Article, or per § 7–101 of the Transportation Article. See the next page for the illustrative map of Sustainable Communities and Priority Funding Areas.

This Information Is Also Available on Maryland Department of Housing and Community Development Website http://dhcd.maryland.gov, Under the General Information In the Investor Section

Sustainable Communities and Priority Funding Areas



Maryland Department of Housing
and Community Development
Secretary Kenneth C. Holt

Pub. Date - 08/31/2017

Current NBLP financing includes:

a. Commercial real estate, including construction and permanent financing for commercial and mixed-use projects;
b. Commercial real estate, including acquisition or refinance of stabilized commercial and mixed use projects;
c. Non-profit facility loans for acquisition, rehabilitation and new construction of facilities for occupancy and/or use by qualified 501 (c)(3) nonprofit organizations

2) CDA is positioned to build NBLP portfolio up through leveraged growth and profitability.

a. CDA earns interest override and financing fees. Interest override is the difference between CDA's cost of borrowing and the stated loan interest rate. Minimum target annual override is set at 0.60% for debt portfolio administration and investor reporting, plus 0.40% loan servicing and asset management fee. Upfront costs: 0.5% to 1% upfront financing fee, $25,000 for DHCD's legal counsel fee, plus all normal real estate and loan closing fees and costs.

b. Loan and debt portfolios are managed for optimal asset-to-debt parity ratio and net interest spread (Net Interest Revenue / Total Interest Revenue) ("Profitability Ratio"). Both are after accounting for loan loss reserve

3) Debt investors earn a fair risk-based return including all applicable CRA credit and other considerations. The investors will assess the collateral value as well as loan performance to satisfy their requirements for non-recourse to CDA portfolio exposure.

4) All CDA-funded business loans are underwritten in anticipation of being offered as non-recourse-to-CDA collateral to private investors. Here are major underwriting parameters to apply to all CDA business loans.

a. Risk factors:
   1. Capital source layering with minimum 5%-10% equity or total cost/capital contribution from borrower
   2. Loan underwriting with conservative loan–life pro-forma demonstrating DSCR of 1.50+
   3. Total combined debt ratio to value of collateral is at 90% and below for for-profit borrowers, and at or below 95% for non-profit borrowers.
b. Collateral valuation: qualified professional and independent, acceptable to CDA, MHF and debt investors

5) MHF set aside up to $10 million in business lending reserves and intends to grow its business lending reserves through strong underwriting of risk and premium income. Out of that reserve MHF will reinsure a portion of CDA's loans, to the extent debt investors might require CDA to take any recourse due to their LTV limits or other risk considerations. Compensation of MHF for re-insuring CDA's risk will be sized to fit within the net revenue of CDA as debt securities are structured with business loan portfolio investors. The coverage will be sized to enable CDA to place debt securities with investors collateralized by business loans to maximize the amount of debt proceeds. CDA does not anticipate needing the MHF insurance for the initial debt placements as the LTV for the underlying loans are very low.

MHF reserves may be used for credit–enhancement of non-CDA loans on a case by case basis and must be recommended for approval to the Secretary of DHCD by NBW Loan Review Committee. Credit-enhancement of non-CDA loans is supported with a separate non-CDA loan reserve within MHF business lending reserves.

III. Program Underwriting Criteria, CDA Funded Loans

For-profit borrowers:

1. Minimum 10% equity or total cost borrower contribution

2. (a) Maximum 90% CLTV financing based on one or multiple senior loan(s) with up to a maximum 30% "top loss" or "deficiency guaranty" covered by CDA and reinsured by MHF through a loan by loan or pool insurance coverage; or

(b) Maximum 100% CLTV financing based on one senior loan of up to 70% LTV and one subordinate loan funded by State-appropriated capital

3. Loan debt service reserve equal to 6 months of maximum annual debt service (subject to change as the program matures and investor base is established)

4. Minimum pro-forma 1.5 DSCR throughout the life of the loan (subject to change as the program matures and investor base is established)

Option (a): 30% CDA-MHF Top Loss Coverage				**Option (b): 2 Loan Structure**			
For-Profit	Sources Based on			**For-Profit**	Sources Based on		
Sources	Collateral Value	Loan Value	Total Cost	Sources	Collateral Value	Loan Value	Total Cost
Total	100.00%	111.11%	100.00%	Total	110.00%	110.00%	100.00%
NBW-CDA	90.00%	100.00%	90.00%	NBW-CDA	70.00%	70.00%	63.64%
NBW-State	0.00%	0.00%	0.00%	NBW-State	30.00%	30.00%	27.27%
Equity	10.00%	11.11%	10.00%	Equity	10.00%	10.00%	9.09%

Non-profit borrowers:

1. Minimum 5% equity or total cost borrower contribution

2. (a) Maximum 95% CLTV financing based on one or multiple senior loan(s) with up to a maximum 30% "top loss" or "deficiency guaranty" covered by CDA and reinsured by MHF through loan by loan or pool insurance coverage; or

(b) Maximum 100% CLTV financing based on one senior loan of up to 70% LTV and one subordinate loan funded by State-appropriated capital.

3. Loan debt service reserve equal to 6 months of maximum annual debt service (subject to change as the program matures and investor base is established)

Option (a): 30% CDA-MHF Top Loss Coverage				**Option (b): 2 Loan Structure**			
Non-Profit	Sources Based on			**Non-Profit**	Sources Based on		
Sources	Collateral Value	Loan Value	Total Cost	Sources	Collateral Value	Loan Value	Total Cost
Total	100.00%	105.26%	100.00%	Total	105.00%	105.00%	100.00%
NBW-CDA	95.00%	100.00%	95.00%	NBW-CDA	70.00%	70.00%	66.67%
NBW-State	0.00%	0.00%	0.00%	NBW-State	30.00%	30.00%	28.57%
Equity	5.00%	5.26%	5.00%	Equity	5.00%	5.00%	4.76%

4. Minimum pro-forma 1.50 DSCR throughout the life of the loan (subject to change as the program matures and investor base is established)

IV. Program Underwriting Criteria, Non-CDA Loans Credit-Enhanced by MHF

For Non-CDA loans credit enhanced by MHF, there are two risk areas, one is centered on the underlying project and the other – on the servicer counterparty capacity to act in the best interest of MHF. The following are key requirements for the projects and servicers participating in this program:

For-profit borrowers:

1. Minimum 10% equity contribution

2. Maximum 90% CLTV financing based on one or multiple senior loan(s) only with up to a maximum 30% "top loss" or "deficiency guaranty" from MHF

3. Minimum pro-forma 1.25 DSCR throughout the life of the loan, unless underwriter determines otherwise based on other mitigating factors.

Non-profit borrowers:

1. Minimum 5% equity contribution

2. Maximum 95% CLTV loan amount based on one or multiple senior loan(s) only with up to a maximum 30% "top loss" or "deficiency guaranty" from MHF

3. Minimum pro-forma 1.25 DSCR throughout the life of the loan, unless underwriter determines otherwise based on other mitigating factors.

Non-CDA Lender Requirements:

1. All lenders shall meet the eligibility requirements of §C or D of COMAR 05.06.09 05 Department of Housing and Community Development, Subtitle 06 Housing Insurance, Chapter 09 Business Reserve Insurance in order to be approved for credit enhancement issued by the MHF.
2. All lenders must be approved by MHF based on their financial strength, good standing and requisite administrative, technical, and loan servicing capabilities, including their ability to comply with MHF's loss mitigation requirements.

V. Program Operation and Administration

Governance

All of NBLP loans over $250,000 as well as MHF credit enhancement for business loans are reviewed and recommended for approval to the Secretary of DHCD by the 5 member **NBW Loan Review Committee** comprised of:

1. Director of CDA (Assistant Secretary of DHCD)
2. Director of Neighborhood Revitalization (Assistant Secretary of DHCD)
3. Chief Financial Officer of DHCD
4. Director of Division of Credit Assurance (DHCD)
5. Program Manager of Small Business Financing from Department of Commerce.

All NBLP CDA business loan underwriting is reviewed and recommended for approval to the Secretary of DHCD by the 7 member **Housing Finance Review Committee ("HFRC")** comprised of:

1. Three employees of DHCD, including Deputy Secretary who serves as Chairman (currently also includes Chief Financial Officer and Assistant Secretary for Neighborhood Revitalization of DHCD)
2. One employee of the executive branch of State government outside DCHD
3. Three members of public with interest and expertise in investment or commercial banking, lending, real estate development, mortgage insurance, community development, or affordable housing.

All of CDA's debt issuance supported by business loans is reviewed and recommended for approval to the Secretary of DHCD by the 7 member **Revenue Bond Advisory Board ("RBAB")** comprised of:

1. Public member experienced in investment banking and the issuance of securities
2. Public member experienced as an attorney in the issuance of revenue bonds
3. Representative from the Office of the Treasurer
4. Representative from an executive agency of State government which issues revenue bonds
5. Representative from an executive agency of State government
6. Two representatives from DHCD (currently Director of Department of Credit Assurance (DHCD) and Deputy Secretary of DHCD, who is the Chairman of RBAB)

The RBAB's main purpose with regard to the Business Lending Program is to review and recommend to the Secretary of DHCD the issuance of debt obligations collateralized by the CDA's business loans.

Program Debt Issuance and Portfolio Management: CDA serves as the provider of the initial collateral contribution to the business lending indenture. CDA also serves as debt issuing entity raising capital in the private market. Debt portfolio is managed by CDA using existing third party custodian / trustee (M&T Bank). CDA's override revenue is intended to cover indenture portfolio management activities, custodian fees and contribute toward accumulation of retained earnings to support future program growth. CDA loan servicing fee covers servicer expense and asset management costs of DCA, and ongoing reporting responsibilities. CDA is well positioned to develop and establish business lending investor base using its own investor outreach efforts along with using the services of specialized debt placement agents, financial institutions and banks.

Legal Counsel: Office of the Attorney's General has prepared the forms of required loan closing and debt issuance documentation. DHCD has also engaged McKennon Shelton & Henn LLP as external legal counsel to ensure proper SEC compliance for all debt offerings and adherence to the best industry practice involving business lending and leveraged program growth.

Credit Enhancement: MHF serves the role of underwriting any loss exposure on CDA-issued business loans. MHF also serves the role of guaranteeing private lender (non-CDA) loans, using a separate, non-CDA loan reserve within MHF.

Loan Underwriting: CDA business lending underwriters perform loan underwriting for all CDA-funded business loans. CDA-funded loans are subject to the requisite internal and external credit committee approval process. CDA staff reviews and approves external lender underwriting package for all non-CDA loans. MHF/DCA underwriters underwrite all loans for credit enhancement. To the extent CDA gets involved in other than MHF-credit supported lending, CDA may procure for a qualified underwriting and servicing entity.

Loan Servicing: The loan servicing is managed by CDA's existing third party loan servicer (AmeriNat). CDA has developed loan data reconciliation and administration procedures with the subservicer – AmeriNat to ensure timely monthly accounting closings. AmeriNat has established loan receipts fund flow to CDA's debt custodian – M&T Bank.

Construction Risk Management: CDA engineering staff reviews all architectural and engineering plans and drawings, they perform field monitoring of construction progress and perform assurance procedures over loan drawing process.

Asset Management: DCA performs asset management and compliance monitoring function, as applicable, and reviews interim project financial information quarterly and audited information annually or as may be required by the debt investors.

Audits and Financial Statements: CDA has retained an independent audit firm and included annual audit as well as review of interim quarterly financial statements in the scope of the audit services for the new business lending indenture. The cost of the audit is covered by CDA.

VI. Other Considerations

CDA has excluded the new business lending indenture from any rating considerations attributed to its housing indentures. The new business lending indenture is not included in the combined CDA financial statements and CDA's general obligation or issuer credit rating does not support the new business lending indenture outside of the initial $10 million collateral contribution.

As part of the program expansion, diversification and targeted improvement of the credit quality of its business lending indenture CDA may procure an outsourced SBA loan origination and servicing partner while retaining investor position in the serviced loan asset as well as any mezzanine debt that may be funded with the appropriated or CDA capital.

CDA is currently analyzing other funding sources and as well as other credit enhancement options which, if adopted, may lead to lower risk, lower interest rates and other more favorable lending terms for business loan program.

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Section Two. Initial Program Funding and Growth Strategies

I. CDA's Initial Capitalization of Business Lending Program

CDA allocated up to $10,000,000 of its reserves to fund the initial assets under the new business lending program indenture. The $10,000,000 is being lent to businesses in the form of low LTV secured loans with at least 1.50 debt service coverage ratio.

II. MHF's Credit Support of Business Lending Program

MHF set aside $10,000,000 in reserves to support CDA's business lending program. The reserves are held in 2 separate subaccounts: $5,000,000 for CDA Loans ("CDA Loan Reserve") and the other $5,000,000 for Non-CDA Loans ("Non-CDA Loan Reserve"). The minimum debt service coverage ratio of the senior loan portfolio enhanced by MHF is 1.25 and 1.50 for CDA loans.

1. **The CDA Loan Reserve**
    a. The CDA Loan Reserve is used to provide up to $2,000,000 in reinsurance support, as needed, for a portfolio of CDA business loans at the time CDA issues debt securities collateralized by such loans.
    b. The CDA Loan Reserve is intended to be used to guarantee up to $3,000,000 in CDA's co-senior business loans and/or senior loan participations, as needed. Depending on the total financing structure CDA may require one-for-one loss or a percentage of top loss coverage from MHF, effectively increasing the CDA's portfolio of business loan assets in a risk-free manner for CDA. The plan is to use up to $3,000,000 in the CDA Loan Reserve for that type of enhanced portfolio growth in addition to any unused portion of the $2,000,000 set aside for supporting the debt issuance under (a). This is estimated to yield an up to $5,000,000 in additional business loans, enabling CDA to issue up to $15,000,000 in total business lending debt securities just from the initial collateral contribution.

2. **The Non-CDA Loan Reserve**
    a. The Non-CDA Loan Reserve is used primarily to support other (Non-CDA) lender financings by providing up to $5,000,000 in top loss guarantees or shared risk coverage.
    b. The Non-CDA Loan Reserve is eligible to be reallocated to CDA Loan Reserve to credit enhance or secure CDA loans or loan participations at the discretion of DHCD's management team, if needed.

The goal is to create a re-lending mechanism for proceeds from such periodic debt issuance into a new vintage of business loans at least once a year if not more frequently. The ultimate goal is to cultivate an investor base ready to invest in CDA's newly originated business loans in time for loan closing or aggregation of a certain amount of such assets.

III. DHCD's Funding of Business Lending Using State-Appropriated Capital

DHCD typically has $5,000,000 in annual State-appropriated Neighborhood Business Works capital, which it uses to fund subordinate loans or higher risk loans and grants that may not fit within the credit requirements of CDA's business loan portfolio destined to become collateral for bond issuance. These funds are a critical component of how CDA plans to achieve leveraged growth of its business lending program on a rolling basis every year.

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Section Three: New Business Lending Program Offering Documents

DHCD has engaged McKennon Shelton & Henn LLP, Baltimore, Maryland, as legal counsel for debt issuance ("NBW Counsel"). NBW Counsel has prepared forms of the following sets of documents:

I. Loan Documents

1. Note
2. Loan Agreement
3. Security Agreement
4. Deed of Trust

II. Debt Investor Initial Offering Documents

1. Master Indenture / General Resolution providing for issuance of debt securities
2. Private Placement Memorandum or Official Statement as primary offering document
3. Debt Purchase Agreement: contract for purchase and sale of debt securities (to be prepared in connection with debt placement)
4. Series Resolution / Supplemental Indenture providing for specific offering under the Master Indenture / General Resolution

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Section Four: Approved NBW CDA Loan Portfolio

Neighborhood Business Loan Program - CDA Loan Portfolio Data

	Project Name, Address	Project Type	Borrower / Sponsor	CDA Senior Loan Amount	Senior Loan Interest Rate	Closing Date	Maturity Date	Loan Term, months	Loan Amortization Period, months	Original DSCR	Original LTV	Original CLTV	Appraised Value As Is	Appraised Value As Completed	Priority Funding Area, Y/N	Sustainable Community, Y/N	DHCD/CDA Subordinate Loan Amount	Total Acquisition and Development, Refinance Amount	Equity / Owner Contribution / Grant Capital	Private/Other Loan Amount
1	CALMRA, Inc. 14100 Laurel Park Drive, Laurel, MD 20707	Office Building Acquistion for Corporate Headquaters	Calmra, Inc	$1,450,000	6.76%	3/31/2017	25 Years	300	300	1.72	66.7%	95.10%	$2,175,000	$2,175,000	Y	N	$620,000	$2,195,000	$125,000	$0
2	Gray Ghost, 320 W 29th Street, Baltimore, MD 21211	Retail/Office Redevelopment of Vacant Warehouse	Seawall Development, LLC, 320 W. 29th Street, LLC	$890,000	8.00%	7/10/2017	25 Years	300	300	2.22	25.9%	63.0%	$670,000	$3,300,000	Y	Y	$1,226,069	$2,582,403	$466,334	$0
3	Union Mill, 1500 Union Avenue, Baltimore, MD 21211	Mixed Use-Housing/office Retail- Refinance	Seawall Union Avenue, LLC	$6,500,000	5.15%	3/30/2018	30 years	360	360	2.3	50.2%	65.6%	$12,960,000	$12,960,000	Y	N	$2,000,000	$9,550,000	$50,000	$1,000,000
	Subtotal			**$8,840,000**	**1.91%**			**79.412**		**0.51**	**13.55%**	**21.94%**	**$15,805,000**	**$18,435,000**			**$3,846,069**	**$14,327,403**	**$641,334**	**$1,000,000**