



May 19, 2025

Drew Schaumber
Schaumber Development
PO Box 9160
Greenville SC 29609

Re: The Palms at Oak Street
Myrtle Beach, South Carolina

Dear Holly,

Red Stone Equity Partners, LLC ("Red Stone") is pleased to be given an opportunity to submit a proposal on The Palms at Oak Street (the "Project") located in Myrtle Beach, South Carolina. This letter serves as an outline of the business terms regarding the acquisition of investor member interests in HD The Palms, LLC (the "Company") that will own the Project. Red Stone or its designee (the "Investor Member") will acquire a 98.990% investor member interest (the "IM Interest") and a 0.001% special investor member interest (the "SIM Interest") in the Company. The terms of this proposal are subject to ratification and countersignature by Red Stone's investment committee as described below. Furthermore, this proposal is neither an expressed nor implied commitment by Red Stone nor any of its affiliates to provide equity financing to the Project. Any commitment shall only be as set forth in a to-be-negotiated operating agreement and will be subject to, among other things, (i) satisfactory transaction structure and documentation, (ii) satisfactory due diligence, including third party reports and (iii) other standard conditions for transactions of this type as described more fully in Paragraphs 14 and 15 below.

1. **Project Information.** The Company has been formed to acquire, own, develop and operate the Project, which is anticipated to be eligible to claim Low Income Housing Tax Credits ("Housing Credits") under Section 42 of the Internal Revenue Code. The Project will consist of 54 residential units for rent to low-income families. The Project will consist of two (2) residential buildings located at 1525 Oak Street in the City of Myrtle Beach, Horry County, within the State of South Carolina. Within the Project, 54 of the units are expected to be Housing Credit compliant, with no additional units being designated as management units. Of the residential units, 25 units will benefit from a project based Section 8 rental subsidy as referenced below and in the financial projections. The residential units mix shall reflect the detail below and shall conform to any other set-asides as required by the South Carolina State Finance and Development Authority (the "Agency"). The means for such conformance shall be reviewed by and be acceptable to Red Stone.

Unit Type	Number of Units	Income Restrictions
1 BR	2	50% AMI/PBV
1 BR	7	50% AMI/PBV
1 BR	9	60% AMI
2 BR	2	50% AMI/PBV
2 BR	6	50% AMI/PBV
2 BR	10	60% AMI
3 BR	2	50% AMI/PBV
3 BR	6	50% AMI/PBV
3 BR	10	60% AMI

The construction and lease-up schedule expected for the Project, and upon which the credit pricing and deal terms are contemplated herein, are as follows:

Closing Date	December 1, 2025
Construction Start Date	December 1, 2025
Completion Date	April 1, 2027
First Unit Leased	April 1, 2027
Last Unit Leased	September 30, 2027
Stabilized Operations	February 1, 2028

2. **Project Ownership.** A to-be-formed entity (the “Managing Member”) will be a taxable, single purpose, bankruptcy remote entity with a 0.009% ownership interest in the Company. Any change in the ownership of the Managing Member shall be subject to Red Stone’s consent. The anticipated ownership structure and other key Project participants are set forth below.

Entity	Name	Ownership Interest
Managing Member	A to-be-formed entity	0.009%
Investor Member	RSEP Holding, LLC, or its designee	98.99%
Special Investor Member	Red Stone Equity Manager, LLC, or its designee	0.001%
State LIHTC Investor	Monarch	1.00%
Developers	Schaumber Development, LLC	
Guarantors ¹	Peter Drew Schaumber (personal)	
General Contractor	TBD	
Property Manager	TBD	

¹ The Guarantors will guarantee certain of the Managing Member’s obligations set forth in Paragraph 7 herein, will do so on a joint and several basis, and will be subject to the review and approval of Red Stone.

3. **Tax Credits.** The Project is expected to receive an allocation of 9% Housing Credits from the Agency for the year 2025 in an annual amount of \$1,750,000. The total Housing Credits anticipated to be delivered to the Company is \$17,500,000 (the "Projected Federal LIHTC"). The Project also expects to receive State Housing Credits from the Agency in the annual amount of \$750,000 (the "Projected State LIHTC").

Any decision to delay the commencement date of the Housing Credit period beyond 2027 is subject to Red Stone's consent. In addition, any decision to commence the Housing Credit period prior to April 2027 is subject to Red Stone's consent.

4. **Capital Contribution.** Red Stone will acquire its IM Interest in the Company for a total capital contribution of \$14,173,583, subject to adjustment in Paragraph 5 below. This capital contribution is based on the following pricing:

Credit Type	Total amount	IM amount	Pricing Factor	Equity
Projected Federal LIHTC	\$17,500,000	\$17,498,250	\$0.81	\$14,173,583
Projected State LIHTC	\$7,500,000	\$7,500,000	\$0.46	\$3,450,000
			Total	\$17,623,582

The above pricing assumes 100% of residential depreciation being taken over 30 years; 100% of depreciation on site improvements being taken over 15 years; and 100% of depreciation on personal property being taken over 5 years. The allocation of the depreciable line items, including bonus depreciation election, is subject to Red Stone's review and approval.

Red Stone will fund its capital contribution pursuant to the following schedule:

- A. 15.00% (\$2,643,537) shall be paid upon the later of (a) the execution of the Operating Agreement, (b) receipt and approval of all due diligence items on Red Stone's due diligence checklist, (c) receipt by the Company of commitment for a non-recourse permanent loan acceptable to Red Stone, (d) receipt of commitments of the additional financing sources described in Paragraph 11, and (e) closing and initial funding of the construction loan.
- B. 50.00% (\$8,811,791) upon the later of (a) satisfaction of the funding conditions described in (A) above, (b) 100% construction completion as determined by the monthly draw accounting and (c) receipt of temporary certificates of occupancy.
- C. 35.00% (\$6,168,254) upon the later of (a) satisfaction of the funding conditions described in (C) above, (b) receipt of permanent certificates of occupancy, (c) receipt of the final cost certification from an independent certified public accountant, (d) repayment of the construction loan and funding of the Project's permanent mortgage (or such condition will be met concurrently with the payment of this installment), (e) satisfaction of all funding conditions required for the permanent mortgage, including without limitation, three consecutive months of a 1.15 to 1.00 Debt Service Coverage

ratio ("DSC") and 90 days of 90% occupancy, (f) achievement of 100% qualified occupancy, and (g) calculations of the preliminary adjusters have been prepared.

5. **Adjusters.**

- A. Increase or Decrease in Housing Credits. In the event that actual Housing Credits as determined by the cost certification and 8609s exceeds Projected Federal LIHTC, Red Stone will pay an additional capital contribution equal to the product of (i) \$0.81 multiplied by (ii) the difference between the actual Federal LIHTC and the Projected Federal LIHTC. In the event that actual Housing Credits as determined by the cost certification and 8609s are less than Projected Federal LIHTC, Red Stone's capital contribution will be reduced by an amount equal to the product of (i) \$0.81 multiplied by (ii) the difference between the Projected Federal LIHTC and the actual Federal LIHTC ("Federal Adjustment Amount"). If the Federal Adjustment Amount exceeds the total of all unfunded capital contributions, then the Managing Member will make a payment (which payment shall be guaranteed by the Guarantors) to the Company equal to the amount of such excess, and the Company will immediately distribute such amount to Red Stone as a return of its capital contribution.
- B. Timing of Housing Credit Delivery. In addition to the Federal Adjustment Amount, Red Stone's capital contribution will be similarly reduced in the event that the actual delivery of Housing Credits is slower than the anticipated schedule set forth in Paragraph 3. The amount (the "Late Delivery Adjustment") of this reduction will equal the product of (i) \$0.60 multiplied by (ii) the difference in the Projected Federal LIHTC and actual Housing Credits for such years are less than the amounts shown in Paragraph 3. Red Stone will pay such additional capital contribution at the funding of its final capital contribution installment. Conversely, in the event that the actual delivery of Housing Credits exceeds the anticipated schedule set forth in Paragraph 3, Red Stone will pay an additional capital contribution (the "Early Delivery Adjustment") equal to the product of (i) \$0.55 multiplied by (ii) the difference between actual Housing Credits and the Projected Federal LIHTC. Red Stone will pay such additional capital contribution at the funding of its final capital contribution installment.
- C. Increase or Decrease in State LIHTC. In the event that actual State LIHTCs exceeds Projected State LIHTCs, Red Stone will pay an additional capital contribution equal to the product of (i) \$0.46 multiplied by (ii) the difference between the actual State LIHTCs and the Projected State LIHTCs. In the event that actual State LIHTCs as determined by the cost certification and 8609s are less than Projected State LIHTCs, Red Stone's capital contribution will be reduced by an amount equal to the product of (i) \$0.46 multiplied by (ii) the difference between the Projected State LIHTCs and the actual State LIHTCs ("State LIHTC Adjustment Amount"). If the Adjustment Amount exceeds the total of all unfunded capital contributions, then the General Partner will make a payment (which payment shall be guaranteed by the Guarantors) to the Partnership equal to the

amount of such excess, and the Partnership will immediately distribute such amount to Red Stone as a return of its capital contribution.

Notwithstanding the above, in no event will the net additional Capital Contribution to be paid by Red Stone exceed 5% of the total original Capital Contribution amount, and Red Stone will pay such additional Capital Contribution at the funding of its final capital contribution. Such additional Capital Contribution will be used to pay any outstanding fees owed to Red Stone and then will be distributed in accordance with the provisions of Paragraph 10(B), below.

6. **Reserves.** The Company will fund the following reserves:

- A. **Operating Reserve.** The Company will fund and maintain an Operating Reserve to be funded from the third Capital Contribution in an amount of \$476,000. Pursuant to Paragraph 10(B), the Operating Reserve will be replenished up to \$476,000 (the "Operating Reserve Floor") from cash flow to the extent withdrawals are made. No withdrawals may be made from the Operating Reserve until the Maximum ODG Amount (as defined in Paragraph 7(B) below) is funded by the Managing Member, as required pursuant to Paragraph 7(B)(ii) below. Any release of funds from the Operating Reserve will be subject to Red Stone's consent. The Operating Reserve shall remain an asset of the Company and shall be subject to distribution in accordance with Paragraph 10(C) below, subject to the approval of any project lenders.
- B. **Replacement Reserve.** The Project operating expenses will include the funding of a Replacement Reserve in the amount of \$450 per unit or such other amount specified by the project lenders increasing by 3% per annum. Any release of funds from the Replacement Reserve will be subject to Red Stone's consent.

7. **Guarantees.** The Guarantors will guarantee the following obligations of the Managing Member:

- A. **Construction Completion Guarantee.** The Guarantors shall guarantee the Managing Member's obligation of lien-free completion of the Project in accordance with the plans and specifications approved by Red Stone for the amount set forth in the approved project development budget. The Construction Completion Guarantee will provide that the Guarantors shall pay any amount in excess of the approved project development budget as well as any Project deficiency arising prior to Stabilized Operations (as defined in Paragraph 7(B) below). Payments made under this guaranty will not constitute loans to the Company or capital contributions and no Guarantors will have any right to receive any repayment on account of such payments.
- B. **Operating Deficit Guarantee.** The Guarantors will agree to advance to the Company any amounts required to fund operating deficits arising after the expiration of the Construction Completion Guarantee, if needed, as follows:
 - (i) The guarantee shall be unlimited until the Project achieves "Stabilized Operations". Stabilized Operations is to be defined as the later to occur of (i)

construction loan payoff and conversion to approved non-recourse permanent financing; and (ii) rental income generated from the Project is sufficient, utilizing the greater of the actual or underwritten vacancy rate of 7%, to pay all operating expenses of the Project, including, without limitation, all actual or anticipated mandatory debt service; real estate taxes; insurance premiums; management fees; and replacement and operating reserve deposits and maintain a debt service coverage ratio of not less than 1.15 to 1.00 for six (6) consecutive months after funding and commencement of amortization of the Project's permanent loan. To the extent applicable, if Project income is insufficient to enable the Project to attain the required debt service coverage necessary for the closing or conversion of all permanent loans, the Guarantors will agree to pay down the construction loan in an amount necessary to allow the Project to cause the closing or conversion of all permanent loans by the conversion date required by the lender(s). Payments made under this guarantee will not constitute loans to the Company or capital contributions and no Guarantors will have any right to receive any repayment on account of such payments.

- (ii) Following (i) above, for a period of 36 months following the achievement of Stabilized Operations (the "ODG Period"), the amount shall be limited to nine months OERDS (currently expected to be \$467,000) (the "Maximum ODG Amount"), and will be released provided the Project maintains a minimum of 1.15 to 1.0 debt service coverage ratio over each of the last consecutive four (4) quarters of the ODG Period. Any amounts so advanced will constitute interest-free loans ("Operating Deficit Loan") repayable out of future available cash flow or out of available proceeds of a sale or refinancing described in Paragraph 10.

- C. Repurchase Guarantee. The Guarantors will repurchase Red Stone's interest upon the occurrence of certain events described in the Operating Agreement.
- D. Housing Credit Shortfall and Recapture Guarantee. In addition to the Housing Credit and Timing Adjusters set forth in Paragraph 5, if the actual amount of Housing Credits for any year is less than Projected Federal LIHTC set forth in Paragraph 3, as adjusted by Paragraph 5, the Guarantors will guarantee payment to the Investor Member of an amount equal to the shortfall, or recapture amount, plus all applicable fees, penalties or other costs incurred by the Company and/or Red Stone as a result of such shortfall or recapture. The Guarantors will pay, on an after-tax basis, the Investor Member \$1.00 for each dollar of Housing Credits lost, plus any related interest or penalties. The Guarantors shall not, though, be responsible for loss or recapture of Housing Credits attributable to changes to the Code after achievement of Stabilized Operations;
- E. Environmental Indemnification. The Company and the Guarantors, jointly and severally, shall indemnify and hold harmless the Investor Member from and against all claims, actions, causes of action, damages, costs, liability and expense incurred or suffered based upon a violation of environmental laws, or respecting the presence of environmental hazards.

- F. Guarantors. The Guarantors will guarantee all of the Managing Member's obligations including those set forth above. The Guarantors will maintain a minimum liquidity of \$1,000,000 and a minimum net worth of \$5,000,000. The Guarantors will provide Red Stone with annual financial statements evidencing compliance with the liquidity and net worth covenants above.
8. Construction. The Managing Member will arrange for a fixed or guaranteed maximum price construction contract in the anticipated amount of \$15,700,000. The Managing Member will carry a hard cost contingency of no less than 5%. The Managing Member shall cause lien-free completion to occur and shall provide either a payment and performance bond or letter of credit to secure the contractor's obligations. Red Stone may, in its sole discretion, engage a construction consultant to review plans and specifications and evaluate the construction progress by providing monthly reports to the Company. The cost of the construction consultant shall be borne by the Company
9. Fees. The following fees will be paid by the Company for services rendered in organizing, developing and managing the Company and the Project.
- A. Developer Fee. The Developer will earn a developer fee of \$1,330,000. The portion of the developer fee that will not be paid out of the Capital Contributions will be deferred and payable by the Company to the Developer as a distribution of net cash flow in accordance with Paragraph 10(B). The deferred amount is projected to be \$0 and will accrue at interest rate up to 8% per annum, or such other interest rate acceptable to tax counsel, in effect as of the placed-in-service date of the project. The balance of the developer fee that is not projected to be permanently deferred is projected to be \$1,330,000 ("Cash Development Fee").
- The deferred amount will be payable out of available cash flow and will mature on the 13th anniversary of the placed-in-service date ("Maturity Date"). If the deferred portion of the developer fee has not been repaid upon the Maturity Date, the Managing Member will be required to advance the Company the amount equal to the unpaid balance of the deferred amount.
- B. Property Management Fee. The property management fee of approximately 5.00% of gross collected rents. The appointment of, and terms of the property management agreement, are subject to the prior approval of Red Stone.
- C. Asset Management Fee. The Company will pay Red Stone an annual asset management fee in an amount equal to \$7,500 per annum. The asset management fee will be paid annually and such fee shall accrue beginning at Initial Closing, with the first payment due and payable on or before March 1, 2027, and each anniversary thereafter. The asset management fee will increase annually by 3%.

- D. Incentive Management Fee. An incentive management fee may be payable to the Managing Member on an annual basis in an amount equal to 90% of net cash flow, or such other amount as determined by and acceptable to tax counsel to Red Stone.

10. **Distribution of Tax and Cash Benefits.**

- A. Tax Benefits. Tax profits, tax losses, and tax credits arising prior to the sale or other disposition of the Project will be allocated 98.990% to the Investor Member, 0.001% to the Special Investor Member, 0.009% to the Managing Member and 1.000% to the State Investor Member. The Investor Member will have the right in its sole discretion to undertake a limited deficit restoration obligation at any time during the term of the Company.
- B. Net Cash Flow Distributions. Distributions of net cash flow, as defined in the Operating Agreement, but generally all cash receipts less cash expenditures (e.g., payment of debt service and property management fee), will be made as follows:
- (i) to the Investor Member in proportion to any phantom tax liability incurred by the Investor Member (i.e., tax liability resulting from allocations of income where the Investor Member has not received a cash distribution);
 - (ii) to the Investor Member, to make any payment of any unpaid tax credit adjuster or any tax credit shortfall or other debts owed to the Investor Member;
 - (iii) to the Investor Member as payment of any unpaid Asset Management Fee;
 - (iv) to replenish the Operating Reserve account to the Operating Reserve Floor;
 - (v) to the payment of any unpaid developer fee, until such fee has been paid in full;
 - (vi) to the payment of any debts owed to the Managing Member;
 - (vii) 90% to the payment of any incentive management fee, or such other amount as determined by and acceptable to tax counsel; and
 - (viii) the balance, 0.009% to the Managing Member, 0.001% to the Special Investor Member, 98.990% to the Investor Member and 1.000% to the State Investor Member, or such other amount determined by and acceptable to tax counsel.
- C. Distributions upon Sale or Refinance. Net proceeds resulting from any sale or refinance will be distributed as follows:
- (i) in accordance with subparagraphs 10B(i) through (iii) above;
 - (ii) in accordance with subparagraphs 10B(v) through (vi) above;

- (iii) to the Special Investor Member, the greater of \$35,000 or 1% of such gross proceeds as a company liquidation fee;
- (iv) to the Investor Member in an amount equal to any projected exit taxes;
- (v) the balance, 85.000% to the Managing Member, 9.999% to the Investor Member, 0.001% to the Special Investor Member and 5.000% to the State Investor Member, or such other amount as determined by and acceptable to tax counsel.

11. **Debt Financing.** As a condition to funding the capital contribution described in Paragraph 4, the Managing Member will deliver the loan commitments described below. The terms of these loans and/or financing sources are subject to Red Stone's consent and all loans will be made directly from the lenders to the Company.

A. **Permanent Loan.** The Company expects to receive non-recourse permanent loan commitments in the maximum amounts, and with the terms set forth below:

Name	Hard / Soft Debt	Interest Rate	Term (mos.)	Amort. (mos.)	% of cash flow
Perm Loan – \$1,750,000	Hard	7.75%	216	420	100%
City of Myrtle Beach - \$540,000	Hard	4.52%	240	360	100%

B. **Construction Loan.** In addition to the permanent financing sources described above, it is expected that the Project will be financed with a first-lien position construction loan in the approximate amount of \$15,700,000 with an approximate interest rate of 6.55% and a term of no less than 24 months.

12. **Purchase Option and Right of First Refusal.**

- A. **Project Purchase Option.** For a period of 2 years following the end of the compliance period, the Managing Member shall have an option to purchase the Project for a purchase price equal to the greater of (i) fair market value or (ii) the sum of (x) the amount of all indebtedness of the Project, which indebtedness may be assumed by the Managing Member at its discretion, and (y) the amount of the federal, state, and local tax liability that the Investor Member would incur as a result of the sale
- B. **Company Interest Option.** For a period of 2 years following the end of the compliance period, the Managing Member shall have an option to purchase the Investor Member's and the Special Investor Member's company interests in the Company for an amount equal to the amount which would be payable to the Investor Member and the Special Investor Member upon liquidation of the Company following a sale of the property under the Project Purchase Option in Section 12(A) above.

13. **Due Diligence, Opinions and Financial Projections.** The Managing Member will satisfy all of Red Stone's due diligence requirements, including an acceptable local law opinion. The Investor Member's tax counsel will provide the tax opinion. The Company will reimburse the Investor Member an amount equal to \$75,000 toward the costs incurred by the Investor Member in conducting its due diligence review and for the costs and expenses of Red Stone's counsel and in connection with the preparation of the tax opinion, and for the costs of Red Stone's other third party reports. Red Stone may deduct this amount from its first Capital Contribution and such amount will be payable to Red Stone in the event the Managing Member elects not to close the transaction for any reason. The financial projections to be attached to the Company Agreement and that support the tax opinion will be prepared by Red Stone based on financial projections provided by the Managing Member. The Managing Member financial projections will include eligible basis calculations, sources and uses, and cash flow statements.
14. **Investor Member Exit.** The Investor Member will have the right, after the making of all required capital contributions, to transfer its interests in the Company to the Managing Member as further described in the Operating Agreement.
15. **Company Closing.** Final Company closing will be contingent upon Red Stone's receipt, review and approval in its sole discretion of all due diligence including the items set forth on its due diligence checklist to be delivered to the Managing Member. Final Company closing also is contingent upon (i) a satisfactory site visit conducted by Red Stone to determine overall market feasibility, including an analysis of proforma rents and expenses, (ii) Red Stone's review and approval of all third party reports, and (iii) final approval of Red Stone's investor. Red Stone's agreement to acquire the IM Interest on the pricing, terms and conditions contained in this letter are further based on the assumption that the Company closing will occur on or before the Closing Date set forth in Section 1. Terms and credit pricing herein shall be valid until the Closing Date. If the Company closing does not occur on or before the Closing Date set forth in Section 1, Red Stone reserves the right in its discretion to modify the tax credit pricing and other terms to be consistent with market conditions.
16. **Exclusivity.** Upon the execution of this Letter of Intent, the Managing Member agrees to cease its efforts to obtain financing from other sources. This exclusive arrangement shall terminate should Red Stone notify the Managing Member in writing that it does not intend to proceed with this investment any time prior to ratification by the Red Stone investment committee.

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It is hereby acknowledged and understood that this proposal is not a commitment to invest, nor is it intended to be a letter of commitment, and Red Stone is not bound to any of the terms and conditions herein outlined. The terms of the financing set forth in this letter are not set until formally approved by Red Stone and the transaction documentation has been executed by Red Stone and the Managing Member.

Sincerely,

By:

A handwritten signature in blue ink, appearing to read 'DTS', written over a horizontal line.

Name: Darren T. Swanson

Title: Managing Director