



May 25, 1988

William H. Pingree
Pingree & Dahle
648 East 100 South
Salt Lake City, Utah 84102

Franklin School

Dear Mr. Pingree:

This letter summarizes the principal agreements we reached earlier this year for an equity placement for the Franklin School Apartments (the "Property"). The Property consists of 40 apartments located in Great Falls, Montana. Rental subsidy for fifteen years under Section 8 is expected for all of the apartment units. The entire Property is expected to be eligible for the 20% certified historic rehabilitation investment tax credit provided under Section 46 of the Internal Revenue Code. The residential portion of the Property is expected to be eligible to receive low-income tax credits provided under Section 42 of the Internal Revenue Code.

Based on the information you have provided to us, this letter will summarize the principal terms on which Boston Financial Qualified Housing Tax Credits L.P. II ("BFQH") would acquire an interest in your Property.

1. The Partnership. The Property will be developed and operated by a Partnership (the "Partnership") whose general partners will be William H. Pingree, Jr., Norman C. Dahle, and Martin L. Artiano (collectively referred to herein as the "General Partners"). The General Partners and the Partnership will be required to submit to BFQH financial statements reviewed by a firm of independent certified public accountants. BFQH will require that the financial resources of the General Partners be sufficient to meet their obligations as described in Paragraph 8 below.

BFQH, a publicly registered limited partnership whose general partners are affiliates of Boston Financial, would be the principal limited partner of the Partnership. The limited partners of BFQH will be a group of investors arranged by Boston Financial. A corporation affiliated with Boston Financial will be a "Special Limited Partner" of the Partnership with certain restricted management rights and a small interest in sale proceeds.

The Boston Financial Group
Incorporated

225 Franklin Street
Boston, Massachusetts 02110-2892
617-542-4475

2. Summary of Compensation. The General Partners and their affiliates will receive the following compensation under this proposal.

a. Capital contributions of \$810,000, payable as follows:

(i) Admission	\$162,000
(ii) Completion	324,000
(iii) Historic Certification	162,000
(iv) March 1, 1990	162,000
Total	<u>\$810,000</u>

- b. Interest on capital contributions after completion
- c. Cash flow prior to the first anniversary of completion: 100%.
- d. Cash flow subsequent to the first anniversary of completion: 1%.
- e. Incentive Management Fee from cash flow
- f. Tax credits: 1%.
- g. Sale proceeds: 50%.

3. Capital Contributions. As outlined in paragraph 2 above, BFQH would make \$810,000 of capital contributions to the Partnership in the following amounts, subject to certain conditions. We anticipate that BFQH would be admitted to the Partnership on or after the initial closing of the construction loan and the issuance of a satisfactory commitment for permanent financing.

Upon admission to the Partnership, BFQH would make the first installment of its capital contributions of \$162,000. Upon the later to occur of completion of the rehabilitation of the Property or filing of the Partnership's tax return for calendar year 1988, BFQH would make the second installment of its capital contributions of \$324,000. The third installment of capital contributions of \$162,000 would be paid upon the later to occur of the following events: certification of the historic rehabilitation of the Property; or determination of the investment tax credit and the annual tax credit for the Property by the Partnership's accountants. The fourth and final installment of capital contributions of \$162,000 would be paid upon the later of March 1, 1990 or the date of the filing of the Partnership's tax return for calendar year 1989.

Beginning on the date of completion of the rehabilitation of the Property, the interest earned on the unreleased portions of the capital contributions would be allocated to the General Partners and their affiliates.

In addition to these substantive conditions, each installment will be contingent upon the satisfaction of various representations and warranties designed to insure the Property's continued financial health and viability,

including (1) no existing, pending or threatened foreclosure of the Property, (2) no existing, pending or threatened bankruptcy of any General Partner, (3) no material default under any Property financing or regulatory documents, (4) no violation of or impediment to the Property's eligibility for tax credits, and (5) no interruption of the Property's tenant subsidy.

The capital contributions by BFQH are net of all transaction costs and fees associated with raising the capital. The sum of the capital contributions and the transaction costs are referred to herein as BFQH's "Allocable Investment". The Allocable Investment is projected to be \$1,080,000.

4. Adjustments to Capital Contributions. BFQH's primary objective in acquiring an interest in your Property is to deliver to its investors an annual stream of tax credit and cash flow benefits equal to 17% of the Allocable Investment in your Property, net of 80% of the historic rehabilitation investment tax credit (the "Target Yield").

Accordingly, the partnership agreement will provide for various adjustments to preserve the Target Yield. The adjustments will cover situations which affect the amount of and the availability of the annual tax credit and the investment tax credit. The adjustments will include both situations involving changes at the time the property is placed in service as well as situations, such as an audit, which subsequently lead to adjustments to the tax credits. The adjustments will be designed to reduce capital contributions in such cases so that BFQH's investors receive benefits equal to the Target Yield.

5. Operating Benefits. As outlined in Paragraph 2 above, the profits, losses and tax credits of the Partnership will be shared among the partners as follows: 99% to BFQH and 1% to the General Partners.

Because the economics of subsidized housing are unpredictable, we have not priced the full amount of the projected cash flow. Instead, much of the cash flow would be allocated to the General Partners through the Incentive Management Fee described in Paragraph 6 below.

Cash flow will be shared as follows:

First, to pay BFQH its annual Priority Distribution (as described in Paragraph 6 below);

Second, to repay any Operating Expense Loans (as described in Paragraph 8.D below);

Third, to the payment of the Incentive Management Fee to the General Partners; and

Fourth, 99% to BFQH and 1% to the General Partners.

In addition, BFQH would be entitled to increased priority distributions from cash flow and sale proceeds if any of the low-income credit is recaptured due to any unit ceasing to qualify as a low-income unit.

6. Management Fees. The management agent will be entitled to receive the normal management fee permitted by HUD. In addition, after BFQH has

received cash flow equal to a cumulative annual "Priority Distribution" of \$10,000, an affiliate of the General Partners will be entitled to a non-cumulative "Incentive Management Fee" equal to 5% of the gross revenues of the Property, payable from cash flow in excess of the priority distribution and any repayments of Operating Expense Loans.

7. Sale Proceeds. The net proceeds of a sale or refinancing will be shared as follows:

First, to the General Partners, to repay any Operating Expense Loans;
Second, to repay BFQH's Allocable Investment;
Third, to the extent BFQH has not received cash flow from operations equal to the cumulative annual Priority Distribution or to the extent BFQH has not received the projected low-income credits as a result of any unit ceasing to qualify as a low-income unit, two times any shortfall;
Fourth, \$10,000 to the Special Limited Partner; and
Fifth, 50% to BFQH and 50% to the General Partners.

8. General Partner Obligations. The General Partners will have the following obligations:

A. Construction Completion. Construction or rehabilitation of the Property must be secured by payment and performance bonds or other security acceptable to BFQH.

B. Development Obligation. Through the later of the first anniversary of completion or the date the Property achieves substantial occupancy (the "Development Date"), the General Partners will be obligated (the "Development Obligation") to complete the Property in accordance with plans and specifications, arrive at final closing, and fund any operating deficits. Any such advances will be without reimbursement.

To satisfy the Development Obligation, the General Partners will have available (1) the proceeds of the mortgage loan, (2) the capital contributions, and (3) any net cash flow generated by the Property through the Development Date.

To the extent that the funds available exceed the requirements under the Development Obligation, the balance, including any net cash flow through the Development Date, would be paid to the General Partners as a development fee.

C. Purchase Obligation. The General Partners will be obligated to purchase BFQH's interest in the Partnership if (1) completion of the rehabilitation of the respective portion of the Property is not achieved by December 31, 1989, or (2) at any time before December 31, 1989 (a) an action is commenced to foreclose, abandon, or permanently enjoin construction of the Property, (b) the Property loses its tenant subsidy, or (c) the Property is disqualified from obtaining tax credits; under certain conditions and for a limited period of time the Partnership will have an opportunity to cure any such problems. The

10. Assumptions. This proposal depends upon the accuracy and verifiability of the assumptions used in the analysis of the Property. The amount of the equity is particularly sensitive to the assumptions about the debt, property revenues, property expenses, and the eligible basis for the tax credits.

We have assumed that our counsel will be able to issue an opinion regarding Partnership allocations; the availability of the investment tax credit under the at-risk rules, particularly with regard to the so-called "80% test" and any related issues; the non-recourse nature of the mortgage loans; and other material tax and partnership matters.

If any of the assumptions prove to be materially inaccurate, this proposal will have to be modified.

BFQH will prepare for review by the General Partners a detailed agreement (the "Investment Agreement") describing the terms and conditions upon which BFQH will acquire the interest in the Partnership described herein. The Investment Agreement will incorporate an Amended and Restated Agreement and Certificate of Limited Partnership and other related documents. The Investment Agreement is to be satisfactory to the parties hereto and their respective counsel.

The Boston Financial Group Incorporated is a nationally recognized expert in affordable housing. We have raised more than \$850,000,000 in leveraged equity for over 500 properties with a total cost in excess of \$3,300,000,000. Based upon a long history of conservative structuring and economic evaluation of properties, we have a strong record of success for investments which we have sponsored over the past 18 years.

As I hope you know, we are very pleased to be your partners in your Elmore Hotel and the Medford Hotel properties, in which our first public partnership acquired an interest. In fact, we are using a photograph of the Medford Hotel in marketing our current offering.

We look forward to closing our investment in this property as soon as possible.

Best regards,



Bruce Kiernan
Vice President

cc: William E. Haynsworth

FraSch PL



May 25, 1988

William H. Pingree
Pingree & Dahle
648 East 100 South
Salt Lake City, Utah 84102

New Grand Apartments

Dear Mr. Pingree:

This letter summarizes the principal agreements we reached earlier this year for an equity placement for the New Grand Apartments (the "Property"). The Property consists of 108 apartments located in Salt Lake City, Utah. Rental subsidy for fifteen years under Section 8 is expected for all of the apartment units. The entire Property is expected to be eligible for the 20% certified historic rehabilitation investment tax credit provided under Section 46 of the Internal Revenue Code. The residential portion of the Property is expected to be eligible to receive low-income tax credits provided under Section 42 of the Internal Revenue Code.

Based on the information you have provided to us, this letter will summarize the principal terms on which Boston Financial Qualified Housing Tax Credits L.P. II ("BFQH") would acquire an interest in your Property.

1. The Partnership. The Property will be developed and operated by a Partnership (the "Partnership") whose general partners will be William H. Pingree, Jr., Norman C. Dahle, and Martin L. Artiano (collectively referred to herein as the "General Partners"). The General Partners and the Partnership will be required to submit to BFQH financial statements reviewed by a firm of independent certified public accountants. BFQH will require that the financial resources of the General Partners be sufficient to meet their obligations as described in Paragraph 8 below.

BFQH, a publicly registered limited partnership whose general partners are affiliates of Boston Financial, would be the principal limited partner of the Partnership. The limited partners of BFQH will be a group of investors arranged by Boston Financial. A corporation affiliated with Boston Financial will be a "Special Limited Partner" of the Partnership with certain restricted management rights and a small interest in sale proceeds.

The Boston Financial Group
Incorporated

225 Franklin Street
Boston, Massachusetts 02110-1802

2. Summary of Compensation. The General Partners and their affiliates will receive the following compensation under this proposal.

a. Capital contributions of \$2,205,000, payable as follows:

(i) Admission	\$ 441,888
(ii) Completion	882,000
(iii) Historic Certification	441,000
(iv) March 1, 1990	441,000
Total	\$2,205,000

b. Interest on capital contributions after completion

c. Cash flow prior to the first anniversary of completion: 100%.

d. Cash flow subsequent to the first anniversary of completion: 1%.

e. Incentive Management Fee from cash flow

f. Tax credits: 1%.

g. Sale proceeds: 50%.

3. Capital Contributions. As outlined in paragraph 2 above, BFQH would make \$2,205,000 of capital contributions to the Partnership in the following amounts, subject to certain conditions. We anticipate that BFQH would be admitted to the Partnership on or after the initial closing of the construction loan and the issuance of a satisfactory commitment for permanent financing.

Upon admission as the Partnership, BFQH would make the first installment of its capital contributions of \$441,000. Upon the later to occur of completion of the rehabilitation of the Property or filing of the Partnership's tax return for calendar year 1988, BFQH would make the second installment of its capital contributions of \$882,000. The third installment of capital contributions of \$441,000 would be paid upon the later to occur of the following events: certification of the historic rehabilitation of the Property; or determination of the investment tax credit and the annual tax credit for the Property by the Partnership's accountants. The fourth and final installment of capital contributions of \$441,000 would be paid upon the later of March 1, 1990 or the date of the filing of the Partnership's tax return for calendar year 1989.

Beginning on the date of completion of the rehabilitation of the Property, the interest earned on the unreleased portions of the capital contributions would be allocated to the General Partners and their affiliates.

In addition to these substantive conditions, each installment will be contingent upon the satisfaction of various representations and warranties designed to insure the Property's continued financial health and viability,

including (1) no existing, pending or threatened foreclosure of the Property, (2) no existing, pending or threatened bankruptcy of any General Partner, (3) no material default under any Property financing or regulatory documents, (4) no violation of or impediment to the Property's eligibility for tax credits, and (5) no interruption of the Property's tenant subsidy.

The capital contributions by BFQH are net of all transaction costs and fees associated with raising the capital. The sum of the capital contributions and the transaction costs are referred to herein as BFQH's "Allocable Investment". The Allocable Investment is projected to be \$2,940,000.

4. Adjustments to Capital Contributions. BFQH's primary objective in acquiring an interest in your Property is to deliver to its investors an annual stream of tax credit and cash flow benefits equal to 17% of the Allocable Investment in your Property, net of 80% of the historic rehabilitation investment tax credit (the "Target Yield").

Accordingly, the partnership agreement will provide for various adjustments to preserve the Target Yield. The adjustments will cover situations which affect the amount of and the availability of the annual tax credit and the investment tax credit. The adjustments will include both situations involving changes at the time the Property is placed in service as well as situations, such as an audit, which subsequently lead to adjustments to the tax credits. The adjustments will be designed to reduce capital contributions in such cases so that BFQH's investors receive benefits equal to the Target Yield.

5. Operating Benefits. As outlined in Paragraph 2 above, the profits, losses and tax credits of the Partnership will be shared among the partners as follows: 99% to BFQH and 1% to the General Partners.

Because the economics of subsidized housing are unpredictable, we have not priced the full amount of the projected cash flow. Instead, much of the cash flow would be allocated to the General Partners through the Incentive Management Fee described in Paragraph 6 below.

Cash flow will be shared as follows:

First, to pay BFQH its annual Priority Distribution (as described in Paragraph 6 below);

Second, to repay any Operating Expense Loans (as described in Paragraph 8.D below);

Third, to the payment of the Incentive Management Fee to the General Partners; and

Fourth, 99% to BFQH and 1% to the General Partners.

In addition, BFQH would be entitled to increased priority distributions from cash flow and sale proceeds if any of the low-income credit is recaptured due to any unit ceasing to qualify as a low-income unit.

6. Management Fees. The management agent will be entitled to receive the normal management fee permitted by HUD. In addition, after BFQH has

received cash flow equal to a cumulative annual "Priority Distribution" of \$22,000, an affiliate of the General Partners will be entitled to a non-cumulative "Incentive Management Fee" equal to 5% of the gross revenues of the Property, payable from cash flow in excess of the priority distribution and any repayments of Operating Expense Loans.

7. Sale Proceeds. The net proceeds of a sale or refinancing will be shared as follows:

- First, to the General Partners, to repay any Operating Expense Loans;
- Second, to repay BFQH's Allocable Investment;
- Third, to the extent BFQH has not received cash flow from operations equal to the cumulative annual Priority Distribution or to the extent BFQH has not received the projected low-income credits as a result of any unit ceasing to qualify as a low-income unit, two times any shortfall;
- Fourth, \$10,000 to the Special Limited Partner; and
- Fifth, 50% to BFQH and 50% to the General Partners.

8. General Partner Obligations. The General Partners will have the following obligations:

A. Construction Completion. Construction or rehabilitation of the Property must be secured by payment and performance bonds or other security acceptable to BFQH.

B. Development Obligation. Through the later of the first anniversary of completion or the date the Property achieves substantial occupancy (the "Development Date"), the General Partners will be obligated (the "Development Obligation") to complete the Property in accordance with plans and specifications, arrive at final closing, and fund any operating deficits. Any such advances will be without reimbursement.

To satisfy the Development Obligation, the General Partners will have available (1) the proceeds of the mortgage loan, (2) the capital contributions, and (3) any net cash flow generated by the Property through the Development Date.

To the extent that the funds available exceed the requirements under the Development Obligation, the balance, including any net cash flow through the Development Date, would be paid to the General Partners as a development fee.

C. Purchase Obligation. The General Partners will be obligated to purchase BFQH's interest in the Partnership if (1) completion of the rehabilitation of the respective portion of the Property is not achieved by December 31, 1989, or (2) at any time before December 31, 1989 (a) an action is commenced to foreclose, abandon, or permanently enjoin construction of the Property, (b) the Property loses its tenant subsidy, or (c) the Property is disqualified from obtaining tax credits; under certain conditions and for a limited period of time the Partnership will have an opportunity to cure any such problems. The

purchase price will be equal to 85% of the Allocable Investment prior to the latest to occur of the following events: December 1, 1988; the "Offering Termination Date"; or the date on which the "Investment Committee" of the Managing General Partner of BFQH has given approval (without regard to whether any conditions are attached to such approval) to investments in "Local Limited Partnership" which represent a commitment of 80% or more of the "Gross Proceeds" of the "Offering" of BFQH (as such terms are defined in the prospectus of BFQH). Thereafter, the purchase price will be equal to the Allocable Investment.

D. Operating Obligation. During the period commencing on the Development Date and ending on the later of the fourth anniversary of the Development Date or the date the Property achieves breakeven operations for six consecutive months, the General Partners will be obligated to advance all funds needed to cover operating deficits (including reserve funding of \$120 per apartment per year, normal repairs, and necessary capital improvements).

Subsequent to the Development Date, any advances to fund the Operating Reserve or to fund operating deficits ("Operating Expense Loans") will bear no interest and will be repayable from future available cash flow as residual as described in Paragraphs 5 and 7 above.

E. Compliance Obligation. The General Partners shall take any and all actions required to insure that the Property will continue to qualify for low-income tax credits and the investment tax credit. The General Partners shall not take any action which would terminate the qualification of the Property for low-income tax credits without the consent of BFQH.

9. BFQH Management Rights. The consent of BFQH will be required (a) to sell or refinance the Property, (b) to withdraw, admit, or substitute General Partners, or (c) to sell, assign, encumber or pledge the general partnership interests. After the date which is ten years after the completion of the rehabilitation of the Property, however, the consent of BFQH will not be required to sell the Property provided that the sale of the Property would result in a cash distribution to BFQH of an amount equal to two-and-one-half times the Allocable Investment of BFQH for the Property plus the amount of any recapture of the low-income tax credits and interest thereon which would be payable by the partners of BFQH as a result of the sale of the Property.

In addition, (a) in the event that any of the General Partners goes bankrupt and the remaining General Partners are unable to fulfill the obligations of the General Partners, (b) if the Partnership or the General Partners are in material default under their commitments and obligations, or (c) in certain other limited circumstances, BFQH will have the right to remove the General Partners and substitute the Special Limited Partner or another affiliate of Boston Financial as a successor general partner with the powers of managing general partner.

10. Assumptions. This proposal depends upon the accuracy and verifiability of the assumptions used in the analysis of the Property. The amount of the equity is particularly sensitive to the assumptions about the debt, property revenues, property expenses, and the eligible basis for the tax credits.

We have assumed that our counsel will be able to issue an opinion regarding Partnership allocations; the availability of the investment tax credit under the at-risk rules, particularly with regard to the so-called "80% test" and any related issues; the non-recourse nature of the mortgage loans; and other material tax and partnership matters.

If any of the assumptions prove to be materially inaccurate, this proposal will have to be modified.

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Best regards,



Bruce Kiernan
Vice President

cc: William E. Haynsworth

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