NYC HDC

NEW YORK CITY
HOUSING DEVELOPMENT
CORPORATION

M E M O R A N D U M

To: The Chairperson and Members

From: Ruth Moreira
Acting First Executive Vice President

Date: November 23, 2021

Re: Housing Impact Bonds, 2021 Series A for the NYCHA PACT Harlem River Developments and Approval of Mortgage Loans

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I am pleased to recommend that the Members approve the issuance of the Corporation's Housing Impact Bonds, 2021 Series A (the "2021 Series A Bonds") in an amount not expected to exceed $113,415,500.

Proceeds will be used to finance the acquisition, rehabilitation, and permanent financing of two NYCHA developments collectively known as Harlem River (the "Project"), which consists of the conversion of 693 units in eight tenant-occupied New York City Housing Authority ("NYCHA") public housing buildings to Section 8 supported multi-family housing, as described herein. The Project is part of the "Permanent Affordability Commitment Together," or "PACT" strategy outlined in the 2018 NYCHA 2.0 strategic plan, which describes how the City of New York (the "City") will reinvest and reposition public housing through Section 8 conversions.

Interest on the 2021 Series A Bonds is expected to be exempt from Federal and New York state and local income tax, and such bonds will qualify as tax-exempt private activity bonds with an allocation of "recycled" volume cap in accordance with the Housing and Economic Recovery Act of 2008 ("HERA").

In addition, the Members are asked to approve the use of the Corporation's general obligation pledge, in an amount not expected to exceed 10% of the outstanding principal balance of the mortgage loans to be financed with the proceeds of the Bonds, plus costs associated with any delinquency resolution, as described herein, to facilitate the top loss share supplemental security for such mortgage loans.

In addition, the Members are asked to approve the origination of a senior unenhanced non-accelerating loan (the "SUN Loan") in an amount not to exceed $38,945,000.

The Bonds are expected to be issued under the Corporation's Housing Impact Bonds Resolution (the "Impact Resolution").

Following is a background of the Impact Resolution, the proposed use of the Bonds (including their structure and security), and the Project.

Background and Status of the Housing Impact Bonds Resolution

Under the Impact Resolution, the Corporation may issue bonds (a) to finance or acquire mortgage loans for the benefit of NYCHA and NYCHA properties and (b) to refund other bond issues of the Corporation, which had financed other multi-family developments. As of October 31, 2021, there were three permanent mortgage loans held under the Impact Resolution with a total outstanding principal balance of $664 million. There are no material monetary defaults on these mortgage loans.

Proposed Uses for Bond Proceeds

The Bond proceeds are expected to fund two mortgage loans (collectively, the "Mortgage Loans") to pay a portion of the cost of acquiring, rehabilitating, and equipping the Project. The Mortgage Loans will be comprised of the "Freddie Mac Enhanced Mortgage Loan", representing 90% of the Mortgage Loans, and the "HDC Enhanced Mortgage Loan", representing 10% of the Mortgage Loans.

The Mortgage Loans are expected to have an approximately 30-year term and will be interest-only for four years, and then amortize over a 40-year amortization schedule, with a blended interest rate of approximately 4.25%. A balloon payment will be due upon maturity.

Merchants Capital Corp. will be the Freddie Mac servicer ("Merchants").

Structure of the Bonds

The Members are being asked to authorize the issuance of the 2021 Series A Bonds pursuant to multi-modal Supplemental Resolutions. Accordingly, all or a portion of the 2021 Series A Bonds may be converted to other interest rate modes provided for in the Supplemental Resolutions such as a fixed rate or variable rate.

The Bonds are expected to be issued as described below, however, the Authorizing Resolution relating to the Bonds will provide that a senior officer of the Corporation may determine to combine supplemental resolutions or issue the Bonds as taxable or tax-exempt, in multiple issuances pursuant to the same resolution and in one or more series or sub-series as long as the total principal amount of Bonds issued does not exceed $113,415,500 and the interest rate on the Bonds does not exceed 15%. The Corporation expects to designate the Bonds as Sustainable Development Bonds.

It is anticipated that the 2021 Series A Bonds, in an amount not expected to exceed $113,415,500, will initially be issued as tax exempt fixed rate bonds with a true interest cost of approximately 3.70% during the initial Fixed Rate period, which is expected to be approximately thirty (30) years.

In the event that the project approvals are not received in time to sell and issue the 2021 Series A Bonds with a public offering before year end, the Corporation may elect to initially directly place the 2021 Series A Bonds as variable rate obligations initially in the Term Rate mode or fund the Loan with the Corporation's unrestricted reserves. In the Term Rate mode, interest is reset at specific intervals. The Members are asked to authorize a not-to-exceed interest rate of 15% for variable rate obligations; however, it is expected that the interest rate on the 2021 Series A Bonds will not exceed 2% during the Term Rate Term. The Corporation would expect to shortly thereafter remarket the 2021 Series A Bonds as tax exempt fixed rate bonds in a public offering.

While in a Term Rate Term, the 2021 Series A Bonds shall be subject to mandatory tender for purchase on any date on which such Bonds or such portion are to be converted to a different interest rate mode and on the last day of any Term Rate Term. The Corporation will be obligated to pay the purchase price of those Bonds that are subject to mandatory tender for purchase and are not remarketed. The unexpended proceeds are expected to be available to pay the purchase price and Members are additionally asked to authorize the Corporation to pledge additional supplemental security in the form of a funding agreement to be provided by the Corporation's general obligation.

Security for Bonds

The Bonds are special revenue obligations of the Corporation, and payment of principal and interest on the Bonds will be secured by the revenues and assets pledged to such payment. The Bonds will be issued on a parity basis with all outstanding previous series of bonds and with all future bonds to be issued under the Resolution, secured by all collateral anticipated to be held under the Resolution. The total loan amount of the mortgages to be funded with the proceeds of the Bonds will be pledged to the Impact Resolution. Approximately $812,248 will be deposited into an interest reserve upon the Bond closing to ensure that sufficient funds will be available to pay the debt service on the Bonds.

Freddie Mac Supplemental Security

The Freddie Mac Enhanced Mortgage Loan is expected to be secured by supplemental security in the form of a standby credit enhancement agreement issued by Freddie Mac pursuant to which, if a payment default occurs under the Freddie Mac Enhanced Mortgage Loan, Freddie Mac will advance an amount equal to the unpaid principal amount of principal and/or interest due.

The Corporation's General Obligation Pledge

The HDC Enhanced Mortgage Loan is expected to be secured by supplemental security in the form of a funding agreement (the "HDC Loan Funding Agreement") to be provided by the Corporation. The HDC Loan Funding Agreement is expected to provide that if a payment default occurs under the HDC Enhanced Mortgage Loan, the Corporation will advance the unpaid principal amount of principal and/or interest due. This payment obligation will be a general obligation of the Corporation.

Repayments of principal and interest on the Mortgage Loans will be allocated first to reimburse Freddie Mac in full, and second, to reimburse the Corporation in full.

The Members are asked to approve the use of the Corporation's general obligation pledge in an amount not to exceed $11,341,000 plus interest; however, the general obligation pledge amount is expected to be $10,310,000 plus interest. The general obligation pledge amounts include the full principal amount of the mortgage loan and the interest component for the term of the loan.

As of October 31, 2021 the collateral of the Impact Resolution consisted of the following:

TYPE OF COLLATERAL	# OF LOANS	AMOUNT	% OF TOTAL
Freddie Mac Insured Mortgage Loans	1	$337,500,000	50.8%
Uninsured Permanent Mortgages	1	$37,500,000	5.7%
Fannie Mae Insured Mortgage	1	$289,000,000	43.5%
Sub-Total	3	$664,000,000	100%
Total*		$664,000,000	100%

* May not add due to rounding

<u>Transaction Summary and History</u>

<u>RAD</u>

One of the two developments – known as Harlem River II – will convert to Section 8 through HUD's RAD program. RAD is designed by HUD to be "cost neutral" and simply shifts federal public housing operating and capital subsidy into a federal Section 8 rental subsidy contract. Given that public housing subsidies are dwindling, RAD rents are significantly lower than Fair Market Rent ("FMR"). Per a 2020 notice, HUD allows public housing authorities to convert 80% of a RAD portfolio through the Section 18 process, which permits access to higher paying Tenant Protection Vouchers ("TPVs") if renovations meet a certain threshold. The TPVs are critical to cross-subsidize lower RAD rents. Harlem River II is expected to meet the required renovation threshold and will be supported by approximately 20% RAD vouchers and 80% TPVs.

<u>Section 18</u>

The second development – known as Harlem River I – will convert to Section 8 through the Section 18 disposition process alone, accessing TPVs for 100% of units. To qualify for 100% Section 18 and corresponding TPVs, a property must meet HUD's definition of "obsolescence". This development is expected to meet the required threshold.

<u>Project Description</u>

The Project is comprised of 693 units across eight buildings on two developments located in the West Harlem neighborhood of Manhattan.

Pursuant to the Section 8 contracts, the Project will be reserved for households earning no more than 50% of Area Median Income ("AMI") which is currently $59,650 for a family of four. The Project is approximately 94% occupied, with a majority of households earning below 50% of AMI. Approximately 3% of the existing tenants (19 families) are expected to be over-income but will be allowed to remain in residence. Upon vacancy, units will be rented to households earning no more than 50% of AMI. In addition to income restrictions under the HAP Contracts, the Project will be subject to the terms of a regulatory agreement to be executed by the Corporation and the Borrower (the "HDC Regulatory Agreement"). The occupancy restrictions under the HDC Regulatory Agreement will require units to be reserved for households earning no more than 60% of AMI and remain in effect for as long as the term of the ground lease and for a minimum of forty (40) years from the date of the loan (the "Occupancy Restriction Period"). As part of the PACT conversion, the Project will go through a substantial tenant-in-place rehabilitation of its 693 units that will address a 20-year capital need, as prescribed by HUD. The scope of work consists of an extensive rehabilitation program that is expected to bring significant quality of life improvements to residents of the Project, improve the Project's energy efficiency performance and enhance the Project. Specific improvements include: upgraded kitchens and baths; new energy efficient windows; broadband infrastructure installation for subsidized access to broadband; LED lighting; new smoke detectors; new electric Variable Refrigerant Flow (VRF) heating and cooling systems; full Section 504 accessibility improvements at 5% of the apartments and hearing or visual accessibility improvements for 2% of units, interior hallway flooring, wall improvements and doors; mechanical and electrical upgrades; new roofing systems; and lead testing and abatement.

A fact sheet with a brief description of the Project is attached (see "Exhibit A").

SUN Loan

The Project is also expected to be financed with a senior unenhanced non-accelerating loan (the SUN Loan, as defined above), in an amount not to exceed $38,945,000.

The Corporation expects to fund the SUN Loan with recycled volume cap under its Open Resolution but may fund the SUN Loan with its unrestricted reserves or available funds of the Open Resolution based on the availably of recycled volume cap. The Corporation's expected funding of the SUN Loan is further described in the memorandum entitled "Multi-Family Housing Revenue Bonds, 2021 Series K, L, M, 2022 Series A; Approval of Mortgage Loans and Approval of SUN Loan" to be presented to the Members concurrently herewith.

The SUN Loan will be senior, un-enhanced and non-accelerating with fixed principal and interest payments that are designed to mimic real estate taxes. The SUN Loan will be structured to mimic a 40-year term and will fully amortize after a four-year interest-only period. Due to the enormity of the PACT initiative goals and the limited availability of relatively low-cost financing, the Corporation developed the SUN Loan structure to leverage resources and save on costs such as third-party credit enhancement fees.

The obligation under the SUN Loan with respect to each separate year during which the SUN Loan remains outstanding, will be evidenced by a separate mortgage note ("PACT Note") and subject to a separate mortgage ("PACT Mortgage"). Each PACT Note will be secured by a PACT Mortgage in the inverse order of priority (i.e., the PACT Note maturing after the first year will be secured by the PACT Mortgage that is in last position), to ensure that any foreclosure will be subject to the remaining, more senior PACT Mortgages. The only default that can occur under the SUN Loan is the failure to pay amounts due under the PACT Note for each year. The debt service coverage on the SUN Loan will be very high as described below in the Risk and Risk Mitigation section.

Historic Tax Credits

Chase Community Equity, LLC, a subsidiary of Chase, will be the Historic Tax Credit Equity investor ("HTC Investor") and is expected to invest a total of approximately $51.1 million in exchange for Federal Historic Tax Credits ("FHTC") and State Historic Tax Credits ("SHTC", collectively the "HTCs"). Harlem River I in the Project qualifies for HTCs, because it is individually listed on the National Register of Historic Places.

The transaction will be structured to include an HTC pass-through master lease between the Borrower and the Master Tenant (as hereinafter defined) (the "HTC Master Lease"). Through this structure, equity flows from the HTC Investor into the Property and the HTC Investor receives certain payments from cash flow. Once the Property is placed in service, the Master Tenant will operate the Property, receive rent, and make rent payments back to the Borrower, which are sufficient to cover the financing and economic requirements of the Borrower, including mortgage payments, replacement reserves, insurance, and distributions. In addition, the Master Tenant will also own a small percentage of the Borrower.

The Corporation will enter into a Subordination, Non-Disturbance and Attornment Agreement with regard to the HTC Master Lease that preserves certain enforcement rights but prevents actions that would cause a recapture of the HTCs during the 5-year compliance period that begins on the date the project is placed in service. In addition, the Corporation expects to engage a special servicer who will facilitate preserving the HTCs while also protecting the Corporation's interests in certain default scenarios.

Borrower and Developer Description

In September 2019, NYCHA issued a request for proposal for a co-developer partner for the Project. The developer selected is a joint venture between entities controlled by Settlement Housing Fund (80% interest) and West Harlem Assistance Group (20% interest), (collectively, the "Development Team"). Both members of the Development Team are 501(c)(3) not-for-profit corporations.

It is expected that there will be one newly formed beneficial leasehold owner, Harlem River Preservation LLC ("Borrower") who will be the borrower on the Mortgage Loans. The Borrower will split ownership, with 90% retained by an entity owned by the Development Team as the managing member ("Harlem River Preservation MM LLC"), which is retained by a joint venture between NYCHA SH PACT LLC (50% non-managing member) and SHF WHGA MM LLC (50% managing member), and 10% ("Harlem River Preservation HTC LLC"), retained by an affiliate of the Historic Tax Credit investor (99% investor member) and Harlem River Preservation MM LLC (1% managing member). Settlement Housing Fund will agree to provide day-to-day decision making, and NYCHA will receive various financial benefits, including an acquisition payment, development fee, and cash flow.

NYCHA will retain fee ownership of the property, with the Borrower as the beneficial lessee under a 99-year NYCHA ground lease. Upon conversion, C+C Property Management will take over property management responsibilities for the portfolio.

The general contractor of the rehabilitation work will be L+M Builders.

Risks and Risk Mitigation

The primary risks associated with the Project are (1) construction completion risk; (2) payment default by the Borrower; and (3) refinance risk. Corporation staff believes these risks are mitigated by several factors. Construction completion risk is mitigated by the Development Team's experience renovating similar tenant-in-place rehabilitation projects, the completion guaranty to be provided by L+M Builders, the 100% Payment and Performance bonds provided by L+M Builders, and the third-party construction monitoring overseen by Hillman Consulting. Payment default risk is mitigated by the Section 8 contract payments, the Development Team's history in operating and managing similar projects, conservative underwriting incorporating low loan-to-value ratios, and strong debt service coverage and income to expense ratios, the Corporation's ongoing asset management and monitoring of the developments, and the Freddie Mac credit enhancement on the Freddie Mac Enhanced Mortgage Loan. In addition, the SUN Loan, as a first position loan, benefits from very high debt service coverage in excess of 4.0. For this reason, the risk of non-payment is particularly low and does not require any additional credit enhancement. As described earlier, the Corporation will be obligated to cover losses on the HDC Enhanced Mortgage Loan, representing 10% of the Mortgage Loans. The Corporation staff believes this is an acceptable risk for the reasons described above. Refinance risk is mitigated by conservative refinance assumptions.

Deposits and Fees

The Borrower will pay the Corporation its costs of financing which is expected to be approximately 1.25% of the total Mortgage Loans amount, plus an up-front commitment fee equal to 0.75% of the Mortgage Loans.

The Borrower will pay Merchants an up-front origination fee equal to 1.00% of the Mortgage Loans. The Borrower will also pay Merchants an ongoing annual servicing fee of at least 0.04%, included in the interest rate of the Mortgage Loans.

The Borrower will pay the Corporation an ongoing annual servicing fee of at least 0.20% and an ongoing annual credit enhancement fee of at least 0.35%, included in the interest rate of the Mortgage Loans.

The Borrower will pay Freddie Mac an ongoing annual guaranty fee of 0.45%, included in the interest rate of the Freddie Mac Enhanced Mortgage Loan.

Rating

The Bonds are expected to be rated in the Aa category by Moody's.

Underwriters or Direct Purchaser

BofA Securities, Inc. (*Senior Managing Underwriter*)
Goldman Sachs & Co. LLC (*Co-Senior Managing Underwriter*)
Academy Securities Inc.

Bancroft Capital, LLC
Barclays Capital Inc.
Citigroup Global Markets Inc.
Drexel Hamilton, LLC
Jefferies LLC
J. P. Morgan Securities LLC
Morgan Stanley & Co. LLC
Multi-Bank Securities, Inc.
Samuel A. Ramirez & Co., Inc.
Raymond James & Associates, Inc.
Roosevelt and Cross Incorporated
UBS Securities LLC
Wells Fargo Securities

Selling Group
American Veteran's Group, PBC
AmeriVet Securities LLC
Rockfleet Financial Services, Inc.
Rice Securities, LLC
TD Securities (USA) LLC
Oppenheimer & Co. LLC

Underwriters' Counsel

Tiber Hudson LLC

Bond Trustee

U.S. Bank National Association

Bond Counsel

Orrick, Herrington & Sutcliffe LLP

Disclosure Counsel

Hawkins Delafield & Wood LLP

Action by the Members

The Members are requested to approve an authorizing resolution that provides for (a) the adoption of the Resolution and the Supplemental Resolutions providing for the issuance of the Bonds, (b) the distribution of preliminary and final Official Statement(s) for the Bonds, (c) the execution of bond purchase agreement(s) with the Underwriter(s) of the Bonds or a direct purchaser of any or all of the Bonds; (d) the use of the Corporation's unrestricted reserves or a cash equivalent, including, but not limited to the Corporation's general obligation, to fund costs of issuance for the Bonds and to fund all or a portion of the debt service reserve account requirement in connection with any or all of the series of Bonds, as may be required; and (e) the execution by the President or any Authorized Officer of the Corporation of any and all documents necessary to issue the Bonds and to make the mortgage loans relating to the Bonds, including the Funding Loan Agreement.

The Members are asked to authorize the use of the Corporation's general obligation pledge (i) in an amount not to exceed 10% of the outstanding principal of the Mortgage Loans, plus costs associated with any delinquency resolution, and (ii) to pay the purchase price of the 2021 Series A Bonds during any initial Term Rate Term.

The Members are requested to approve i) the making of the Mortgage Loans in an aggregate amount not to exceed $113,415,500, which may be initially financed with the Corporation's unrestricted reserves until the issuance of the 2021 Series A Bonds, and ii) the execution by an Authorized Officer of the Corporation of mortgage related documents and any other documents necessary to accomplish the financing.

The Members are asked to authorize the origination of the SUN Loan in an amount not to exceed $38,945,000, and the mortgage-related documents and other documents necessary to accomplish the SUN Loan financing.

Exhibit A

PACT Harlem River
Manhattan, New York

Project Location:

Harlem River I - Building 1 (MN 2037 11)
(1) 229 WEST 152ND STREET
(2) 225 WEST 152ND STREET
(3) 221 WEST 152ND STREET
(4) 210T WEST 153RD STREET
(5) 210S WEST 153RD STREET
(6) 210R WEST 153RD STREET
(7) 2100 WEST 153RD STREET
(8) 70 MACOMBS PLACE

Harlem River I - Building 2 (MN 2037 11)
(1) 210P WEST 153RD STREET
(2) 210N WEST 153RD STREET
(3) 210M WEST 153RD STREET
(4) 210L WEST 153RD STREET
(5) 210K WEST 153RD STREET
(6) 2650 A C POWELL BOULEVARD

Harlem River I - Building 3 (MN 2037 11)
(1) 211J WEST 151ST STREET
(2) 211H WEST 151ST STREET
(3) 211G WEST 151ST STREET
(4) 2628 A C POWELL BOULEVARD
(5) 2630 A C POWELL BOULEVARD
(6) 2632 A C POWELL BOULEVARD
(7) 211F WEST 151ST STREET
(8) 2620 A C POWELL BOULEVARD
(9) 2622 A C POWELL BOULEVARD
(10) 2624 A C POWELL BOULEVARD
(11) 2626 A C POWELL BOULEVARD
(12) 207 WEST 151ST STREET
(13) 211E WEST 151ST STREET

Harlem River I - Building 4 (MN 2037 11)
(1) 211D WEST 151ST STREET
(2) 211C WEST 151ST STREET
(3) 211B WEST 151ST STREET
(4) 211A WEST 151ST STREET
(5) 220 WEST 152ND STREET
(6) 224 WEST 152ND STREET
(7) 226 WEST 152ND STREET

Harlem River I - Building 5 (MN 2037 11)
(1) 231 WEST 151ST STREET
(2) 234 WEST 152ND STREET
(3) 52 MACOMBS PLACE
(4) 54 1/2 MACOMBS PLACE
(5) 54 MACOMBS PLACE
(6) 56 1/2 MACOMBS PLACE
(7) 56 MACOMBS PLACE
(8) 58 1/2 MACOMBS PLACE
(9) 58 MACOMBS PLACE
(10) 50 MACOMBS PLACE
(11) 48 MACOMBS PLACE

(12) 46 MACOMBS PLACE
(13) 40 1/2 MACOMBS PLACE
(14) 42 1/2 MACOMBS PLACE
(15) 42 MACOMBS PLACE
(16) 44 MACOMBS PLACE

Harlem River I - Building 6 (MN 2016 60)
(1) 2653 A C POWELL BOULEVARD
(2) 2651 A C POWELL BOULEVARD
(3) 2645 A C POWELL BOULEVARD
(4) 2641 A C POWELL BOULEVARD
(5) 187 WEST 152ND STREET
(6) 183 WEST 152ND STREET
(7) 180 WEST 152ND STREET
(8) 182 WEST 152ND STREET
(9) 186 WEST 152ND STREET

Harlem River I - Building 7 (MN 2016 60)
(1) 2637 A C POWELL BOULEVARD
(2) 190 WEST 152ND STREET
(3) 191W WEST 151ST STREET
(4) 2627 A C POWELL BOULEVARD
(5) 2633 A C POWELL BOULEVARD
(6) 191V WEST 151ST STREET
(7) 2621 A C POWELL BOULEVARD
(8) 191U WEST 151ST STREET
(9) 181 WEST 151ST STREET
(10) 177 WEST 151ST STREET
(11) 173 WEST 151ST STREET

Harlem River II - Building 8 (MN 2037 1)
(1) 2850 F DOUGLASS BOULEVARD
(2) 291 WEST 151ST STREET
(3) 293 WEST 151ST STREET
(4) 295 WEST 151ST STREET

HDC Program: NYCHA PACT

Project Description: This project will consist of the preservation of 693 units in eight buildings within two developments. Total project square footage is approximately 628,000 gross square feet, inclusive of approximately 25,000 square feet of commercial and community facility space.

Total Rental Units: 691 (plus two superintendent units)

Apartment Distribution:

Unit Size	No. of Units
Studio	59
1 bedroom	299
2 bedroom	280
3 bedroom	52
4 bedroom	3
5 bedroom	0
Total Units*	693

*Total Units are inclusive of two superintendent units

Expected HDC Construction Financing Amount: N/A

Expected HDC Permanent Financing Amount: SUN Loan: $34,370,000
Freddie Mac Enhanced Mortgage Loan: $92,795,000
HDC Enhanced Mortgage Loan: $10,310,000

Expected Total Development Cost:	$231,557,782
Owner:	Harlem River Preservation LLC, the beneficial ground lessee, whose principals are Alexa Sewell, Garraud Etienne, Lee Warshavsky (Settlement Housing Fund, Inc.) and Genevieve Outlaw, Diane Ince, Donald C. Notice (West Harlem Group Assistance Inc.) and Harlem River Preservation Housing Development Fund Company, Inc., the nominee ground lessee, whose sole member is Settlement Housing Fund, Inc., whose board of directors and officers consist of Alexa Sewell, President, Garraud Etienne, Vice President, and Lee Warshavsky, Secretary/Treasurer.
Developer:	Settlement Housing Fund and West Harlem Group Assistance, Inc
Credit Enhancer:	Construction – N/A Permanent - Freddie Mac will provide credit enhancement for 90% of the permanent financing amount