NEW YORK CITY
HOUSING DEVELOPMENT
CORPORATION

To: The Chairperson and Members

From: Eric Enderlin
President

Date: March 20, 2024

Subject: Preservation Refinancing Program

I am pleased to recommend that the Members approve the delegation of programmatic authority to the HDC Credit Committee to approve mortgage loans for refinancing and rehabilitation for projects in HDC's portfolio that meet the requirements of the Preservation Refinancing Program ("PRP") Term Sheet attached as Appendix A. Under the proposed PRP programmatic authority, such mortgage loans could be made in an amount not to exceed $25,000,000 per project, subject to Credit Committee approval, with an annual limit not to exceed $100,000,000, for an initial period of five (5) years. Any extension to the programmatic authority beyond the initial five (5) years would be presented to the Members for approval at that time. Loans approved under the PRP would be funded with the Corporation's unrestricted reserves, available monies in the Open Resolution, or available proceeds of bonds or obligations of the Corporation.

Background

HDC does not currently have a published official Preservation term sheet on its website. As HDC's portfolio has grown, HDC Development has been working for some time to create a term sheet that would address the needs of the portfolio while creating efficiencies of execution and resources. This newly proposed PRP Term Sheet would help standardize the refinancing process for developments in HDC's existing portfolio and provide transparency by making up-to-date guidance publicly available to HDC borrowers seeking to refinance their loans.

The PRP Term Sheet would enable HDC to close conforming Preservation loans "off-cycle," a useful tool because project readiness on preservation deals does not always align with scheduled HDC Board meetings. The Members meet biannually each year in June and December with additional meetings scheduled on an as-needed basis, but HDC Development and Asset Management have observed a recent increase in projects that need to refinance but face challenges in meeting the requirements for a loan closing within a predictable timeframe. The PRP Term Sheet would be particularly beneficial to Mitchell-Lama cooperatives within HDC's portfolio that are seeking to leverage new senior debt to address their financial and physical needs; these projects often also require HPD City Capital to fund renovation scopes of work, and the timeline for other sources may not line up with the typical HDC Board meeting schedule. Timelines for co-op projects are generally more unpredictable than rental projects, driven by a co-op board of shareholders who may not be familiar with real estate development or the mortgage loan closing process but often have critical refinancing needs.

Preservation Refinancing Program

The PRP Term Sheet (attached as Attachment "A") is consistent with the Corporation's conservative underwriting standards and capitalizes on the Corporation's long history with the underlying properties, owners, management, and residents. Benefits of the program include extended affordability, as the Corporation will require a new regulatory agreement and affordability for at least 30 years as part of any refinancing. The Corporation also benefits from the ability to address physical and financial distress within the portfolio, as project sponsors and owners may use the refinanced loan proceeds to fund moderate rehabilitation work.

The proposed PRP Term Sheet does not dictate specific funding sources, credit enhancement, or construction scope, but new financing would be limited to a cap of $25,000,000. Larger loans above that cap would be presented to the Members for a project-specific approval.

Projects most likely to utilize this PRP Term Sheet are those whose timelines do not align with the scheduled HDC Board meetings. All eligible projects would require Credit Committee approval, and conforming loans could still be presented to the Members for approval when the project closing timeline aligns with HDC Board meetings. The term sheet would therefore be a limited tool used to close off-cycle conforming mortgage loans to fund timely renovation and refinancing projects that are ready to move forward, subject to HDC Credit Committee approval. Under the Preservation Refinancing Program, loans could be funded with the Corporation's unrestricted reserves, available monies in the Open Resolution, obligations or bonds of the Corporation, the issuance of which would be presented to the Members for approval.

Risk and Risk Mitigation

The Preservation Refinancing Program will facilitate preservation of the Corporation's existing investments in affordable housing and pose limited financial risk to the Corporation. The additional risk may be mitigated by the use of credit enhancement during construction and mortgage insurance during the permanent term. It is also mitigated by the use of the Corporation's conservative underwriting standards and strong asset management. Risk is further mitigated by the $25,000,000 limit for new financing, as well as continued ongoing monitoring and financial reporting. Finally, all projects closing under the Preservation Refinancing Program will require Credit Committee approval.

The Corporation would commit to providing annual reporting to the Members, of all the loans funded under the programmatic authority described in this memo.

The proposed term sheet has been reviewed and approved by HDC's Credit Committee.

Request for Approval

The Members are requested to approve i) the delegation of programmatic authority to HDC's Credit Committee to approve the making and funding of refinancing and rehabilitation mortgage loans for projects in HDC's portfolio that conform to the Preservation Refinancing Program Term Sheet; ii) the use of the Corporation's unrestricted reserves, available monies in the Open Resolution, or obligations or bonds of the Corporation in an amount not to exceed $25,000,000 per project and not to exceed $100,000,000 per year for an initial term of five (5) years; and iii) the execution by an Authorized Officer of the Corporation of mortgage-related documents and any other documents necessary to accomplish the making and funding of such loans under the PRP program.

Attachments

A. Preservation Refinancing Program (PRP) Term Sheet

NYC HDC

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Preservation Refinancing Program

Program Description

HDC's Preservation Refinancing Program (PRP) provides taxable or tax exempt, fixed-rate, first-position mortgage financing for the preservation of existing projects within HDC's portfolio that can be refinanced and moderately rehabbed. No HDC second mortgage subsidy funds are available, though HDC may consider restructuring existing subordinate debt on a case-by-case basis.

Eligible Projects

Eligible projects must be existing buildings in HDC's portfolio.

Projects will be subject to a new regulatory agreement with at least a 30-year term that also extends the affordability period through the term.

First Mortgage

Loan Amount: Up to $25,000,000 of new HDC financing and following the below criteria:

Debt Coverage: 1.15 on all financing, or greater as required by permanent credit enhancer.

Loan to Value: 80% maximum as-stabilized on the first mortgage loan. Value will be determined using a capitalization rate that does not consider the value of below market financing. Value based on an independent MAI appraisal acceptable to HDC.

Income-to-Expense Ratio: 1.05 on all financing, or greater as required by permanent credit enhancer.

Financing Structure: Construction loan or straight to permanent financing structure may be considered at HDC's discretion.

Interest Rate:

Permanent Fixed Rate. Interest rates are subject to change based on market conditions. Interest rate is inclusive of mortgage insurance fees.

Term:

30 to 40 year term with a coterminous amortization schedule. Supplemental senior financing may be considered on a case-by-case basis and would need to be coterminous with any existing senior financing. A non-coterminous amortization schedule may be considered on a case-by-case basis.

Loan Prepayment:

10 year prepayment lockout. Prepayment during the 11th or 12th year shall be subject to a prepayment premium of 2% and 1%, respectively.

HDC Financing Fees Commitment Fee: 1.00% of first mortgage amount.

Costs of Issuance: 1.50% of bonds issued.

Bond Issuance Charge: HDC will collect an additional bond issuance charge that is payable on a sliding scale and is based on the amount of bonds issued.

• Less than $1,000,001 = 0.168%

• $1,000,001 to $5,000,000 = 0.336%
• $5,000,001 to $10,000,000 = 0.504%
• $10,000,001 to $20,000,000 = 0.672%
• Greater than $20,000,000 = 0.84%

Construction Monitoring: $2,500-$5,000 per month based on total number of units, buildings and scattered sites.

Subordinate Mortgages	Existing HDC subordinate mortgages may be restructured and extended to be coterminous with the First Mortgage on a case-by-case basis. Existing non-HDC financing is also required to be extended and subordinated to the new HDC financing. Projects co-funded with HPD subsidy should also refer to HPD requirements under their preservation term sheets.
Credit Enhancement	Mortgage insurance is required during the permanent mortgage period. On projects with a construction loan, a credit enhancement must be provided for the full amount of the construction loan by either the permanent credit enhancer or by a Construction Lender through a letter of credit. HDC may provide primary credit enhancement during construction. On deals with a stand-by LOC, the stand-by LOC provider must be a highly rated financial institution acceptable to HDC. On deals without a stand-by LOC, HDC will require a Payment and Performance bond and in lieu thereof may accept a 10% LOC from the GC.
Closing Conditions	Conditions precedent to loan closing include (but are not limited to): • Approval from HUD for pre-payment, if applicable. • Completed and satisfactory Integrated Physical Needs Assessment ("IPNA"). Please refer to the Pre-qualified list for IPNA vendors. • Completed and satisfactory disclosure documents for principals and known investors in the project, as required by HDC. • Completed and satisfactory review by HDC Asset Management of sponsor and managing agent. • Satisfactory approval by HDC Credit Committee. • Completed and satisfactory State Environmental Quality Review Act (SEQRA) review. • Completed and satisfactory third party reports with reliance letters to HDC. • Financial statements and credit reports. • Historic building operating statements. • Final construction plans reviewed and approved by HPD or HDC, as applicable. • Commitment letter from other subordinate lenders, if applicable. • Evidence of all other required funding. • Note, mortgage, assignment of leases and rents, and UCC's. • Certifications and attorney opinion letters. • Satisfactory organizational documents for the borrower and related entities. • Property and liability insurance in form and substance acceptable to HDC. • Good and marketable title, free and clear of encumbrances except as permitted by HDC. • Title insurance and survey in form and substance acceptable to HDC. • Evidence of real estate tax benefits. • All other conditions as required by the mortgage insurance provider. Documentation will require that HDC be named a beneficiary on a number of documents, including but not limited to insurance certificates and completion guarantees.

Other	Design Guidelines:

Other

Design Guidelines:

Project scope and plans are subject to review by HDC Engineering. If applicable, projects must meet the following:

1. All NYC Façade Inspection Safety Program (FISP) filings must achieve a FISP SAFE designation.
2. HPD Design Guidelines for Preservation.

Building Green:

If applicable, projects must meet Enterprise Green Communities (EGC) standards. HDC encourages all projects to comply.

All projects will be required to retain an HDC pre-qualified benchmarking service provider to track utility usage for heating, electric and water. Benchmarking expense may vary by project.

Maximum Developer Fee:

For HPD-funded projects, please refer to HPD term sheet requirements. For all other projects, HDC will consider developer fee on a case-by-case basis. Consultant fees should be paid from developer fee.

Equity Take Outs:

Equity take outs may be financed provided that 1) no defaults in the last 12 months, 2) HDC approved IPNA with funds escrowed for all necessary repairs and reserves funded for future capital needs, as determined by HDC, and 3) For projects receiving Section 8 Housing Assistance Payment (HAP) contracts, owners must renew HAP contract(s) for a 20-Year term.

*Any project also receiving financing or a tax exemption from HPD should refer to HPD guidelines / consult with HPD.

Real Estate Tax Benefits:

Real Estate Tax Benefits are provided through the New York City Department of Housing Preservation and Development (HPD) and the length of the exemption is generally coterminous with the new senior loan. Potential Benefits include standard or enhanced J-51, 420-c, Article II, and/or An Article XI Exemption. Current shelter rent payments should be expected to continue as long as any HAP contract is in place. See HPD Tax Credits and Discretionary Exemptions Program guidelines for more details on benefits/eligibility.

Recourse:

HDC permanent loans are generally non-recourse to Borrower, except for environmental indemnity and standard non-recourse "carve out" Guaranty for fraud and related misrepresentation. HDC requires non-profit developers to provide guarantees from both Borrower and the non-profit developer and/or parent entities. For-profit developers are required to provide guarantees from both Borrower and one or more individual guarantors. All guarantors must complete satisfactory disclosure documents. HDC reserves the right to accept and approve all proposed individual and/or corporate guarantors and guarantee terms.

Collateral:

First mortgage on land and improvements.

Reserves/Ongoing Fees:

Capitalized Operating Reserve: Minimum of $1,000 per unit collected at loan closing.

Replacement Reserve: subject to HDC's current M&O standard, collected on an ongoing monthly basis, increased with CPI. Smaller projects may require higher replacement reserves.

Servicing Fee: 0.25% on the par amount on all HDC senior financing annually, without escalation.

Items Required for Project Review	For consideration, submit project information, including: • Location and description of site and proposed development (including address, borough, block and lots). • Project history including existing mortgages, use restrictions, tax exemptions and rental assistance including status of any Section 8 HAP or other contracts. • Preliminary pro-forma including hard and soft costs, unit distribution, current rents and income levels, projected rents, outstanding debt balance and rate, estimated rehabilitation costs, and other financing sources. • Development team (borrower, contractor, management company) and listing of experience and principals. • Identification of tax credit investor, if applicable. • Identification of current tax exemption. • Statement of required HUD approvals, if applicable (HUD approval required if original project was financed by HUD after 1983). Documentation will require that HDC be named a beneficiary on a number of documents, including but not limited to insurance certificates and completion guarantees.
Contact Information	HDC Development Group Phone: (212) 227-9373 E-Mail: development@nychdc.com 120 Broadway, 2nd Floor New York, NY 10271 www.nychdc.com *HDC, in its sole discretion, may, at any time and without prior notice, terminate the program, amend or waive any of the terms set forth in this document, or reject any or all proposals for funding.* Updated 3/19/2024