MEMORANDUM

To: The Chairperson and Members

From: Eric Enderlin
    President

Date: January 21, 2020

Re: Approval of Corporate Reserves to Fund HPD Special Initiatives Loans

I am pleased to recommend that the Members approve the Corporation’s use of unrestricted corporate reserves in an amount not expected to exceed $25,000,000 for the purpose of participating in a funding swap with the New York City Department of Housing Preservation and Development (“HPD”) relating to an expanded set of initiatives (“HPD Special Initiatives”) to improve energy and water efficiency in affordable housing, rehabilitate former Low Income Housing Tax Credit projects and modify apartments to optimize their use by senior citizens and disabled tenants. These initiatives will be funded by the Corporation and in exchange the Corporation will receive an equal amount of City capital funds from HPD to be used for one or more HDC project loans on capitally eligible costs.

Background

On September 30, 2015, the Members approved a proposal that the Corporation finance non-capitally eligible energy efficiency and water conservation upgrades (“Green Initiatives Loans”) pursuant to an interagency Memorandum of Understanding (“MOU”) with HPD. The MOU provided that the Corporation establish a dedicated account (“Dedicated Account”) from unrestricted corporate reserves to be used to fund Green Initiatives Loans.

HPD is now requesting that the Corporation authorize an additional $25,000,000 in unrestricted corporate reserves to in order to fund an expanded set of HPD Special Initiatives. The size of the request is based on a pipeline of projects that can close within the next two years, and these projects are expected to be similar in type to those closed under the Green Initiatives and Year 15 HDC Reserve programs, which were previously approved by the Members. The pipeline for the HPD Special Initiatives includes projects from the Green Initiative Program, the Low-Income Housing Tax Credit Year 15 Program and associated Aging-in-Place Program. The additional programs are described as follows:

- HPD’s Year 15 Program makes capital loans for moderate rehabilitation work available to projects reaching the end of their tax credit compliance period. In addition to the capital loans, HPD may also make Year 15 reserve loans available to Year 15 projects
as a source to fund necessary maintenance work and capitalize operating and replacement reserves.

- As part of Housing New York 2.0, the City increased the seniors served commitment, including funding Aging-in-Place work such as interior unit modifications to assist seniors and people with disabilities so they can live more comfortably. All preservation projects, including those undergoing a moderate rehabilitation through an HPD Preservation Finance program, will be required to survey all existing tenants living in a project to determine whether there is need for Aging-in-Place modifications. The Aging-in-Place modifications will then be included in the larger scope of work for the project.

In order to facilitate the implementation of the HPD Special Initiatives and due to funding restrictions for New York City, HPD is requesting that the Corporation finance the HPD Special Initiatives Loans pursuant to the swap described herein.

**Use of Corporate Reserves vs. City Capital Funds**

The Corporation’s reserves relate to the unrestricted funds of the Corporation that can be used, pursuant to Members’ approval, to fund any statutorily permitted activities of the Corporation. These monies are generally derived from the Corporation’s business activities which may include income from investments, spread from its mortgage lending and fees that HDC charges its borrowers for its servicing, loan origination and asset management oversight. The term “City capital funds” generally refers to capital raised by the City from its borrowing and can be expended pursuant to certain requirements established in the City’s charter and the New York State Local Finance Law. These requirements detail what are capital eligible expenses and the related minimum useful life term for City capital funds. As related to this memo the expenses that are necessary for the HPD Special Initiatives program would not be capital eligible and as such the City and HPD are requesting the use of HDC corporate reserves to fund such expenses and the City will subsequently swap City capital funds for HDC Project Loans that are eligible uses.

**Proposed Uses**

The Corporation will finance these HPD Special Initiatives pursuant to an interagency Memorandum of Understanding (“MOU”) with HPD. The MOU will provide that the Corporation establish a dedicated account (“HPD Special Initiatives Dedicated Account”) totaling $25,000,000 from unrestricted corporate reserves to be used to fund loans for the HPD Special Initiatives (the “HPD Special Initiatives Loans”). The funding amount is sized based on HPD’s estimated pipeline for New York City Fiscal Year 2020, but the Corporation will remain contractually obligated to HPD to use the funds for the HPD Special Initiatives even if not all of it is expended during the City’s Fiscal Year 2020. HPD and the Corporation are expected to execute a control agreement indicating that funds will be redirected towards other standard HPD programs that meet the Corporation’s statutory authority to the extent that the loans do not close within a to-be-determined window.
Loans originated pursuant to the HPD Special Initiatives will be subject to HPD program terms. HPD will underwrite and close each HPD Special Initiatives transaction, with a form notification to the Corporation to release the funds at closing. HPD Special Initiatives Loans will be made in the Corporation’s name and will be assigned to HPD at construction completion. All investment earnings and debt service payments on the HPD Special Initiative Loans, minus the servicing fees, will go back to the HPD Special Initiatives Dedicated Account prior to construction completion, and will be paid to HPD once the loan has converted to permanent status. HPD or a participating senior lender will be responsible for compliance and construction monitoring on the HPD Special Initiatives Loans.

For each project that receives an HPD Special Initiatives Loan, HPD will enter into a regulatory agreement that places income restrictions on a portion of the units to be determined by HPD.

In exchange for the Corporation financing the HPD Special Initiatives Loans, HPD will provide City capital funds as subsidy loans or grants to HDC for one or more new construction or preservation projects financed by the Corporation (“HDC Project Loan”) that will be presented to the Members at a future date, in an amount equal to the Corporation’s allocation to the HPD Special Initiatives Dedicated Account. HPD’s financing of the HDC Project loans will be in lieu of the Corporation using its own unrestricted reserves for such loans pursuant to HDC’s programs and term sheets. The HDC Project Loans will be made in the Corporation’s name and either funded by HPD pursuant to construction loan participation agreements that will terminate no later than conversion of each loan to a permanent loan or a grant of funds to HDC pursuant to Section 661 of the Private Housing Finance Law.

**Risks and Risk Mitigation**

All repayment risk associated with HPD Special Initiatives Loans made through the HPD Special Initiatives Dedicated Account will be HPD’s risk. Also, any cost or expenses incurred by the Corporation for bank fees and investment breakage fees in connection with the performance of its duties shall be paid by HPD from the HPD Special Initiatives Dedicated Account. If funds in the HPD Special Initiatives Dedicated Account are insufficient to fund a transfer request and related bank or investment breakage fees, the Corporation will not transfer the funds and will inform HPD. Risk to the Corporation relates to the timing of receipt of City Capital funds from HPD to fund HDC Project Loans. Corporation staff work closely with HPD to track timing of HPD funds.

**Fees**

For HPD Special Initiative Loans serviced by the Corporation, the Corporation will charge a servicing fee equal to 0.25% per annum. In the event debt service is not paid on the HPD Special Initiatives Loans, the Corporation will deduct an annual servicing fee from the HPD Special Initiatives Dedicated Account equal to 0.25% per annum. In cases where there is a participating lender who will be doing construction servicing, the Corporation will advance the entire loan to the servicer at closing, and that lender will perform all servicing functions and the Corporation will not charge a construction servicing fee.
Action by the Members

The Members are requested to authorize the use of up to $25,000,000 of the Corporation’s unrestricted reserves to fund the HPD Special Initiatives Dedicated Account for the making of HPD Special Initiatives Loans and the execution by an Authorized Officer of the Corporation of mortgage-related documents and any other documents necessary to accomplish the making of the HPD Special Initiatives Loans.