NYC HDC
NEW YORK CITY
HOUSING DEVELOPMENT
CORPORATION

MEMORANDUM

To: The Chairperson and Members

From: Marc Jahr
President

Date: February 8, 2012

Subject: Amendment and Restatement of Multi-Family Mortgage Revenue Bonds (Queens Family Courthouse Apartments) Bond Resolution

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I am recommending that the Members approve the amendment and restatement of the Multi-Family Mortgage Revenue Bonds (Queens Family Courthouse Apartments) Bond Resolution (the "Amended and Restated Bond Resolution"). Following is a discussion concerning the background of the bonds relating to the development of Queens Family Courthouse Apartments, the proposed restructuring of such development and the amended structure and security for such Bonds (as defined below).

Background

On June 13, 2007, the Members approved the issuance of the Corporation's Multi-Family Mortgage Revenue Bonds (Queens Family Courthouse Apartments) 2007 Series A (the "Bonds"). The Corporation issued $120,000,000 in tax exempt, seven-day variable rate obligations secured by a direct pay letter of credit ("LOC") issued by Citibank N.A. ("Citibank"). The proceeds of the Bonds were utilized by QFC Owner, LLC (the "Mortgagor"), a Delaware limited liability company, for the purpose of paying a portion of the costs of acquiring and constructing a 277-unit multi-family rental housing development to be located at 89-14 Parsons Boulevard in Jamaica, Queens (the "Project") developed under the Corporation's Mixed Income Program. The sole member of the Mortgagor is QFC Associates, LLC, a Delaware limited liability company whose managing member is Dermot QFC, LLC and whose investor member is an entity owned by the AFL-CIO Building Investment Trust (the "BIT").

The Corporation also made a second mortgage loan from the Corporation's unrestricted reserves in the amount of $10,790,000, in accordance with the Corporation's Mixed Income Program guidelines.

In conjunction with the Project's financing of the rental development, a separate cooperative ownership development was financed with 69 for-sale units to be located on two floors of the same building as the rental development. Citibank made a $17,000,000 first position construction loan to finance the development of the cooperative units and the Corporation made a Cooperative Subordinate Loan also funded from the Corporation's unrestricted reserves, in the amount of $4,485,000, in accordance with the Affordable Cooperative Program guidelines.

In November 2010, the Members approved an Authorizing Resolution for the amendment of the Multi-Family Mortgage Revenue Bonds (Queens Family Courthouse Apartments) Bond Resolution, originally adopted by the Members of the Corporation on June 13, 2007 (as amended, the "Resolution") extending the maturity date of the Bonds from the initial maturity date of June 1, 2042 to June 15, 2047. The amendment was necessary so that the Mortgagor could benefit from the American Recovery and Reinvestment Act of 2009 ("ARRA") legislation that permitted the refunding of bonds so that they are not subject to the Federal Alternative Minimum Tax ("AMT").

Concurrently, at the Mortgagor's request, the Corporation approved the integration of the 69 cooperative units into the rental development. As a result of the general economic climate at the time and a decline in the homeownership market, the cooperative structure was no longer a viable alternative for the project. The Corporation approved the restructuring into an all rental development in accordance with its Mixed Income Program guidelines, providing for a total of 346 residential rental units within the Project distributed as follows: 110 market rate units, 165 middle-income units, 70 low-income units and one unit set aside for occupancy by the building superintendent; 59 of the 70 low-income units are reserved for tenants earning no more than 50% of Area Median Income and the remaining 11 low-income units are reserved for tenants earning no more than 40% of Area Median Income. The Corporation's Subordinate Loan and Cooperative Subordinate Loan were consolidated into one loan in the amount of $15,275,000, in compliance with the Mixed Income Program guidelines, at 1% with monthly interest only payments and principal due at maturity. The Citibank construction loan for the cooperative units was paid off in May 2011 with equity provided by the BIT, the original investor in the Project.

Current Status

The Project reached 100% construction completion and secured its Temporary Certificate of Occupancy (TCO) in January 2010; currently 98% (339 units) of the 346 residential units are occupied.

The Project features 43,226 square feet of commercial space, 19,522 square feet of community facility space and a parking facility. The commercial space component remains largely vacant with only 9,943 square feet leased and occupied by a supermarket. The Mortgagor is also in discussions with a restaurant for 5,475 square feet of retail space.

The community facility space, containing 19,522 square feet, will be leased to the Jamaica Service Program for Older Adults, Inc. ("JSPOA"), through a Funding Agreement between the Mortgagor, JSPOA and the New York City Economic Development Corporation (NYCEDC). JSPOA plans to operate its "Friendship Center" in the premises, providing services and activities for mentally and physically frail older adults.

The parking facility is licensed and operated by Standard Parking Corporation under a management agreement. While the garage is open for business, it is operating far below its initially projected 496-space legal capacity and a steady level of demand has not yet materialized.

The Project was financed during a period when the residential and retail real estate markets in New York were much stronger. The Mortgagor has had to reduce the retail rents to a level significantly below rents projected during the initial underwriting in order to attract tenants. This decrease in commercial income has caused additional financial stress on the Project.

Proposed Re-Structuring

The Project financing will be restructured to reduce the amount of senior debt to $40,000,000 and cause the redemption of $78,190,000 of Bonds (currently outstanding). The pay down of Bonds will be funded with a combination of various sources as outlined below. The Bonds will be redeemed through redemption mechanisms provided for in the original Resolution and there will be a mandatory tender and remarketing pursuant to the Amended and Restated Bond Resolution of the remainder in the amount of $40,000,000. All current Bondholders will be paid in full and the Bonds will be remarketed as unrated, variable rate index bonds to be directly purchased by Citibank pursuant to a Remarketing Purchase Agreement. The Bonds will be secured by a Mortgage Purchase Agreement ("MPA") to be entered into by Citibank and the Corporation. The MPA will be for an initial term of 10 years and is described further below in the section entitled "Security for the Bonds." It is expected that at the end of the initial 10 year period, the Mortgagor will have an option to extend for a maximum of up to four years. Alternatively, the Mortgagor will seek a long term enhancement satisfactory to the Corporation.

Original Mortgage Balance	**$120,00,000**
First Mortgage Balance as of 1/31/2012	**$118,190,000**
Unused Bond Proceeds	8,340,000
Principal Reserve Funds	200,000
Bank Debt Write Off*	32,650,000
BIT/Borrower Equity**	37,000,000
Total Debt Reduction	**$78,190,000**
2012 Sources of Funds	
Remarketing Proceeds	40,000,000
Second Mortgage Funds	15,275,000
BIT /Borrower Equity**	47,000,000
Total 2012 Sources	**$102,275,000**

*Citibank and two participating lenders, Fannie Mae and Bank of America, have agreed to accept a debt write off of $32,650,000, to be split on a negotiated basis based on their participation. Citibank currently holds a 63.8% participation in the loan, Fannie Mae holds 29% and Bank of America holds 7.2%. Once the restructuring is complete, Citibank will be the sole bank in the transaction.

**The BIT has contributed $58,193,009 in equity to date and an additional contribution of $47,000,000 will be made along with the restructuring for a total equity infusion of $105,193,009; the additional $47,000,000 will be used to pay down $37,000,000 of senior debt as outlined above and the remaining $10,000,000 will be used to fund tenant improvement costs for the un-leased commercial space, a capitalized operating reserve and closing and restructuring costs.

As a condition to the additional infusion, the BIT will require that the $47,000,000 be repaid with a yield return of 15%; such return will be subject to the Project's available cash flow after debt service on the senior mortgage, interest on the Corporation's second mortgage, and the payment of fees. The principal on the second mortgage will be subordinate to the BIT equity and yield return and the loan will mature concurrently with the Bonds on June 15, 2047. Also as part of the restructuring, it is anticipated that the Mortgagor will execute on a low income housing tax credit syndication which is expected to generate $8,934,697 in tax credit equity over a ten year period. The syndication will be effectuated by the admission of an investment fund (the "Investment Member") sponsored by Richman-KCM Tax Credit Advisors LLC ("RKCM"), and in turn, Signature Bank NY N.A. (the "Investor") is anticipated to acquire a limited partnership interest in the Investment Member. The syndication revenue will be distributed to the Mortgagor/General Partner on an annual basis over the ten year period to repay a portion of the BIT equity investment.

<u>Amendment of the Bond Resolution and Structure of the Bonds</u>

The Bonds will be remarketed pursuant to the Amended and Restated Bond Resolution as variable rate obligations directly purchased by Citibank. The Members are being requested to approve the Amended and Restated Bond Resolution pursuant to an authorizing resolution. As amended, the Bonds shall bear interest at a rate equal to 100% of the most recent Securities Industry and Financial Markets Association ("SIFMA") Municipal Swap Index plus a spread expected to be 1.75%. The rate will be reset on a weekly basis. Similar to other multi-modal transactions undertaken by the Corporation, the Amended and Restated Bond Resolution and other agreements to be entered into in connection with the financing provide that the Bonds may be converted to (i) a Weekly Rate, (ii) a Term Rate (with a semi-annual term or any multiples thereof), or (iii) a Fixed Rate, all at the option of the Borrower with the approval of the credit enhancer and the Corporation pursuant to the terms of the Amended and Restated Bond Resolution. The Bonds will be subject to a maximum interest rate of 10% per annum in any of the above interest rate modes, although the maximum rate may be increased to 15% in accordance with the provisions of the Bond Resolution. The Bonds will have a final maturity of June 15, 2047.

Citibank will require the Borrower to maintain an interest rate cap ("Rate Cap") as a hedge against interest rate volatility. The existing Rate Cap will expire June 2012 and will be extended and/or replaced for another five (5) years. The Borrower is required to escrow on a monthly basis approximately 1/60th of the cost to replace the initial Rate Cap upon its expiration.

Security for the Bonds

During the initial period of 10 years, the Bonds will be secured by the MPA with Citibank. If the Trustee has not received from the Borrower any amount due and owing under the note and mortgage or otherwise required by the Amended and Restated Bond Resolution, Citibank shall have (i) the option to pay such amount or (ii) the obligation to purchase the note and mortgage from the Corporation resulting in the redemption of the Bonds. Even if Citibank fails to pay the purchase price, the note and mortgage will be assigned to Citibank and the Bonds will be retired under the terms of the Amended and Restated Bond Resolution.

Upon the expiration of the initial 10 year term, it is anticipated that the MPA will be extended or replaced with a Credit Facility for a term up to June 15, 2047, or such shorter term as approved by the Corporation. The Amended and Restated Bond Resolution permits the provision of a Credit Facility, as long as the Corporation provides the Trustee certain items detailed in the Amended and Restated Bond Resolution including, but not limited to, (i) an opinion of bond counsel stating that the Credit Facility meets the requirements of the Amended and Restated Bond Resolution and will not adversely affect the tax exemption relating to the Bonds, and (ii) a letter from the nationally recognized rating agency or agencies then rating the Bonds stating that the provision of a Credit Facility will provide the Bonds with an investment grade rating.

Under the terms of the Amended and Restated Bond Resolution, a change in either (i) the security for the Bonds, or (ii) the method of establishing the interest rate on the Bonds, will result in a mandatory tender of the Bonds for purchase at par plus accrued interest.

Risks and Risk Mitigation

The primary risk associated with this bond issue is the absence of a traditional credit facility. In the event the Borrower fails to make payments on the loan and the Project defaults, the Corporation will not have the ability to draw on a bank letter of credit to satisfy the corresponding debt obligations. However, the MPA will mitigate this potential risk by requiring Citibank to purchase the mortgage from the Corporation, which will result in the retirement of the Bonds prior to an event of default on the Bonds. Additionally, Citibank will have remedies against the Mortgagor.

Fees

The Borrower will be obligated to pay the Corporation a fee equal to all of the Corporation's costs of issuance in connection with the Bonds. In addition, the Corporation will receive an annual servicing fee equal to 0.25% of the outstanding principal balance of the Bonds.

Rating

The Bonds will be unrated during the term of the MPA.

Trustee and Tender Agent

U.S. Bank National Association

Senior Manager and Remarketing Agent

No Underwriter is needed during the 10 year period since the Bonds will be directly remarketed to Citibank.

Bond Counsel

Hawkins Delafield & Wood LLP

Action by the Members

The Members are requested to approve an authorizing resolution which provides for (i) the adoption of the Amended and Restated Bond Resolution, (ii) the execution of the Remarketing Purchase Contract regarding the remarketing of the Bonds, (iii) the execution of the Mortgage Purchase Agreement with respect to the Bonds and (iv) the execution of mortgage related documents and any other documents necessary to accomplish the remarketing of the Bonds and the re-financing of the loan.