NYC HDC

NEW YORK CITY
HOUSING DEVELOPMENT
CORPORATION

TO: The Chairperson and Members

FROM: Eric Enderlin E.E.
President

DATE: March 10, 2017

RE: Loan Agreements for Private Activity Bond Volume Cap Recycling Facility

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I am pleased to recommend that the Members approve the Corporation entering into, from time to time, one or more loan agreements with Citibank N.A. ("Citibank") to establish a private activity bond volume cap recycling facility to enable the Corporation to more efficiently capture and recycle tax-exempt bond authority.

Background

The Housing and Economic Recovery Act of 2008 ("HERA") allows the Corporation to refund tax-exempt multi-family housing bonds and "recycle" loan prepayments to finance another project without having to use new private activity bond volume cap. Since the Corporation's first "recycled" bond issuance in 2008, it has used the recycled bond program as a vital financing tool for projects that do not seek tax credit equity, or to supplement the scarce new private activity bond volume cap for mixed-income projects that include units that do not generate tax credit equity. In order to use the recycling authorization in HERA, once a prepayment is received, the Corporation must issue refunding bonds prior to the redemption of the original bonds. Due to the unpredictable timeline of prepayments and the bond issuance for new projects, the Corporation manages its recycled pipeline either by holding the prepayments under the original bond issuance or issuing a recycling convertible option bond ("COB") to carry the prepayments until a new bond issuance is ready. At times these approaches are cumbersome or expensive due to the costs associated with keeping bonds outstanding until prepayments can be used. To more effectively and efficiently manage its recycled bond program, the Corporation is seeking a "recycling facility" as further detailed below.

RFP Request for Recycling Facility

On October 31, 2016, the Corporation sent a request for proposal (the "RFP") to selective firms with extensive municipal banking experience to solicit recommendations on the costs and fees,

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terms and structure, and the documentation and reporting requirement for a warehousing facility to recycle prepayments for the Corporation's recycled bond program. The RFP was also posted on HDC's website. The Corporation received a total of seven responses, of which five responses, from Bank of America, N.A., Citibank, JP Morgan Chase Bank, N.A., Raymond James & Associates, Inc. and RBC Capital Markets, LLC, recommended a bank facility structure, one response, from Jeffries LLC, recommended a commercial paper structure, and the final response, from Barclays Capital Inc., recommended both a bank facility and a commercial paper structure.

Based on the review and evaluation by the Corporation's Capital Markets group on criteria including up front and long term cost-effectiveness, draw-down and repayment flexibility and extension capability, Citibank's proposed structure, as further detailed below, is being recommended as the most economical, flexible structure to manage the pipeline for the Corporation's recycled bond program.

Structure of the Recycling Facility

The tax-exempt volume cap recycling warehouse facility (the "Facility") will be structured as a drawdown facility with Citibank, consisting of one or more loan agreements with a cumulative maximum outstanding drawn amount not expected to exceed $60,000,000 at any one time, and a not to exceed interest rate of 15%.

The Corporation expects to initially enter into one loan agreement for a cumulative aggregate principal amount of $250,000,000 to be drawn over an initial term of approximately 18 months that can be extended for subsequent terms. The initial loan agreement, for an anticipated cumulative aggregate principal amount of $250,000,000, is expected to be priced at a variable interest rate equal to 3-month LIBOR (London Interbank Offered Rate) plus a spread anticipated to be 20 basis points for the initial 18-month term based on the anticipated credit structure outlined below on the amount drawn. The LIBOR rate would be reset and the interest would be paid by the Corporation on a quarterly basis. There is no fee or interest costs on the undrawn portion. The anticipated not-to-exceed amount and term of the Facility are based on the Corporation's recycled bond volume in recent years, the 6-month recycling restriction for use of a loan prepayment under HERA and the aggregate term anticipated to fully utilize and draw-down the Facility, as well as the most efficient and cost-effective structure from a pricing perspective. In connection with the anticipated exhaustion of the cumulative aggregate principal amount that may be drawn over the 18-month initial term, or the anticipated expiration of the 18-month initial term, the Corporation may either (i) amend the existing agreement with Citibank increasing such cumulative aggregate principal amount and/or extending such term, or (ii) enter into a new loan agreement with Citibank, which new loan agreement is expected to have substantially the same terms as the initial loan agreement. The option to amend the existing loan agreement or enter into a new agreement, in either case complying with Facility terms, provides the Corporation additional flexibility to use the full capacity of the Facility for managing its recycled bond program.

The Corporation can access and draw down the Facility with no more than a three-day notice to Citibank, enabling the Corporation to more efficiently capture and hold certain prepayments when received. When a new project is ready to be financed with the prepayment, the Corporation needs only provide Citibank with one day notice. Each draw is expected not to exceed six months, per recycling restrictions under HERA. The interest on the Facility is anticipated to be lower than the interest on the original bonds financing the prepaid projects. Compared to issuing a recycling COB to hold the prepayments, the Facility avoids the underwriting fees and related cost of issuance and the timing constraints, as it will be directly placed with Citibank.

Pledge of Corporation's General Obligation

The Members are further requested to approve the use of the Corporation's general obligation pledge, for an amount equivalent to the drawdown amount plus the interest cost, in an amount not expected to exceed $62,250,000 (plus any late payment charges, ongoing obligations or fees), to secure the payment obligation due under the Facility.

The Facility is anticipated to be a stand-alone facility secured by the general obligation of the Corporation. This credit structure allows Citibank to provide the most cost effective solution without requiring daily reporting, overcollateralization, and a large interest reserve; in addition, there would be no requirement to report to Citibank how the proceeds of the Facility will be invested, allowing the Corporation the flexibility to invest the funds in order to minimize its net interest costs.

Benefit of the Recycling Facility

The Facility addresses the logistical challenges facing the multi-family volume cap recycling rules under HERA. It greatly helps with the timing constraints of when the prepayment is received and when the prior bonds can be redeemed. This structure enables the Corporation to capture and recycle tax exempt bond authority more efficiently.

Risks to the Corporation

The primary risk to the Corporation related to the establishment of the Facility is the Corporation's obligation to pay the principal and interest due under the Facility. However, this risk is minimal since each draw of the Facility will be equal to the amount of prepayment received. The prepayments will be invested in short term securities. In addition, the maximum outstanding drawn amount of $60,000,000 and maximum expected accrued interest amount of $2,250,000 further minimizes the risk exposure to the Corporation. Pursuant to the terms of the Facility, the Corporation will have greater flexibility to invest each prepayment in qualified securities for slightly longer terms as permitted under the Corporation's Investment Guidelines to increase the investment return on prepayment proceeds (instead of being limited to buying shorter term securities timed to when the prepayments will likely be recycled). Therefore, the Corporation's staff believes that the risk to the Corporation is de minimis.

Action By Members

The Members are requested to approve an authorizing resolution that provides for (1) the Corporation to enter into one or more loan agreements and one or more notes as well as necessary amendments with Citibank to establish and manage the Facility, (2) the pledge of Corporation's general obligation in an amount not expected to exceed $62,250,000 (plus any late payment charges, ongoing obligations or fees), and (3) the execution of the officers of the Corporation to prepare and execute all documents and enter into all agreements necessary to establish and manage the Facility.