NYC HDC

NEW YORK CITY
HOUSING DEVELOPMENT
CORPORATION

MEMORANDUM

To: The Chairperson and Members

From: Gary Rodney
President

Date: April 2, 2014

Re: Multi-Family Housing Revenue Bonds, 2014 Series B-1 and 2014 Series B-2

I am pleased to recommend that the Members approve the issuance of the Corporation's Multi-Family Housing Revenue Bonds, 2014 Series B-1 and 2014 Series B-2 (the "2014 Series B-1 Bonds" and "2014 Series B-2 Bonds", respectively, and collectively, the "2014 Series B Bonds") in a combined amount not expected to exceed $160,000,000.[1]

Interest on the 2014 Series B Bonds is not expected to be exempt from Federal income tax, but is expected to be exempt from state and local income tax. The anticipated interest rate, maturity date and other relevant terms of the 2014 Series B Bonds are described herein.

The proposed financing is a re-securitization of a participation interest between the Corporation and The City of New York, acting by and through the Department of Housing Preservation and Development (the "City"), as described below. The 2014 Series B Bond proceeds are expected to be used by the Corporation to make subsidy loans pursuant to the Mayor's new housing plan, and together with other funds available, to purchase an interest rate cap and pay costs of issuance. **The re-securitization is expected to generate between $125,000,000 and $140,000,000 for the Mayor's new housing plan.**

The Members are being asked to approve the purchase of the interest rate cap to manage the variable interest rate risk relating to the 2014 Series B-2 Bonds, which are expected to be issued on a variable rate basis. The Members are further being asked to approve the use of the Corporation's general obligation pledge to satisfy rating agency reserve requirements for the 2014 Series B Bonds in an amount expected not to exceed $8,000,000, or such greater amount as may be required by the rating agencies.

The Authorizing Resolutions will authorize the 190th and 191st Supplemental Resolutions under the Open Resolution.

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1 Together with the issuance of the 2014 Series B Bonds, the Corporation expects to remarket $33,510,000 of its Multi-Family Housing Revenue Bonds, 2013 Series F Bonds and issue $7,945,000 of its Multi-Family Housing Revenue Bonds, 2014 Series A Bonds to finance the acquisition and rehabilitation of two projects pursuant to a Supplemental Resolution previously adopted by the Members.

Following is a background of the Open Resolution, the proposed uses of the 2014 Series B Bonds and a description of their structure and security.

Background and Status of the Open Resolution

Under the Open Resolution, the Corporation has issued bonds (a) to finance or acquire mortgage loans for multi-family rental and cooperative housing developments throughout New York City, (b) to refund other bond issues of the Corporation, which had financed other multi-family developments, and (c) to acquire a 100% interest in City-owned mortgages. As of January 31, 2014 there were 955 mortgage loans (877 permanent loans and 78 construction loans) held under the Open Resolution with a total outstanding principal balance of approximately $3,967,704,278, with $3,111,922,703 permanent loans and $855,781,575 construction loans. These mortgage loans, together with funds in the Bond Proceeds Account and Debt Service Reserve Account total $4,846,411,454 as of January 31, 2014. There are no material monetary defaults on any of the mortgage loans other than temporary financial difficulties with respect to certain developments which are in the process of being cured. As of January 31, 2014, there were $4,057,705,000 of Open Resolution Bonds outstanding, not including bonds issued under the New Issue Bond Program.

Proposed Uses for the 2014 Series B Bond Proceeds

The Corporation expects to use the proceeds of the 2014 Series B Bonds to provide funds to the Corporation for its corporate purposes. The Corporation plans to use the funds raised from the re-securitization to continue its affordable housing mission principally through the making of subordinate subsidy loans.

In addition, the 2014 Series B Bond proceeds, together with other available funds, will be used to purchase an interest rate cap and pay other costs of issuance. The Corporation expects to issue the 2014 Series B-2 Bonds as LIBOR-indexed variable rate bonds, as described below. The Corporation expects that the 2014 Series B-2 Bonds will be purchased by the Federal Home Loan Bank of New York (the "FHLBNY") and have a ceiling rate anticipated to be 7.5%. To further protect against interest rate volatility, the Corporation expects to purchase a LIBOR-indexed interest rate cap from a qualified interest rate provider pursuant to the hedge policy, expected to be presented to the Members for approval on April 10, 2014 (the "Hedge Policy"). It is expected that the interest rate cap will be amortized along with the bond schedule for the full term of the 2014 Series B-2 Bonds, and include a strike rate anticipated to be 5.5%. In the event the interest rate on the outstanding amount of 2014 Series B-2 Bonds exceeds the anticipated strike rate of 5.5%, the interest rate cap provider would be obligated to pay HDC the difference up to the anticipated 7.5% ceiling rate on the 2014 Series B-2 Bonds. The cost of purchasing a cap for the aforementioned structure is anticipated to be 5.23% of the principal amount of the 2014 Series B-2 Bonds.

Structure of the 2014 Series B Bonds

The 2014 Series B Bonds are expected to be issued in the modes described below, however, the Authorizing Resolution relating to the 2014 Series B Bonds will provide that a senior officer of the Corporation may determine to combine supplemental resolutions or issue the bonds in multiple issuances pursuant to the same supplemental resolution as long as the total amount of the 2014 Series B Bonds issued does not exceed $160,000,000.

The 2014 Series B-1 Bonds, in an amount not expected to exceed $100,000,000, are expected to be issued on a fixed-rate basis. The Members are asked to authorize a not-to-exceed rate of 10.0% for fixed rate bonds; however, it is expected that the 2014 Series B-1 Bonds will have a true interest cost that does not exceed 5.00%. The 2014 Series B-1 Bonds are expected to have an approximate final maturity of November 1, 2024.

The 2014 Series B-2 Bonds, in an amount not expected to exceed $60,000,000, are expected to be issued as variable rate index bonds with an interest rate cap. The 2014 Series B-2 Bonds are expected to be purchased by FHLBNY with an approximate final maturity of November 1, 2033. The Members are asked to authorize a not-to-exceed rate of 15% for variable rate bonds; however, it is expected that the interest rate on the 2014 Series B-2 Bonds will not exceed 7.5% and the interest rate cap described above will effectively further reduce the maximum bond rate to 5.5%. It is expected that FHLBNY will have the right to give notice on a quarterly basis to put the 2014 Series B-2 Bonds back to the Corporation effective twelve (12) months after such notice. The right to put is only available after an initial twelve (12) month period. If the Corporation cannot either refinance or repay the principal remaining on the 2014 Series B-2 Bonds put prior to the effective date of such notice then the Corporation will repay FHLBNY the principal amount over a period, anticipated to be five (5) years, from excess cash in the Open Resolution.

2014 Series B Participant Interest

The principal amount and maturities of the 2014 Series B Bonds are being structured based on the projected cash flows relating to the Participant Interest, as defined below.

As of January 31, 2014, the Participant Interest, in the aggregate consisted of (i) a 100% participation interest in approximately 266 permanent mortgage loans for multi-family housing developments (the participation interest in such mortgage loans to constitute the "Purchased Mortgage Loans"), (ii) a 100% participation interest in the cash flow derived from the certificate evidencing a beneficial ownership interest in approximately 41 permanent mortgage loans ("Class B-1 Sheridan Trust II Certificate"), which constitutes the "Trust Mortgage Loans," and collectively with the Purchased Mortgage Loans, the "Underlying Mortgage Loans"), (iii) all rights, but not the obligations, of the "owner" of the Purchased Mortgage Loans under the servicing agreements with respect to the Purchased Mortgage Loans, and (iv) all rights of the Facilitation Trusts under the Purchase and Sale Agreements between the City and each Facilitation Trust, pursuant to which the City assigned the Purchased Mortgage Loans and the Class B-1 Sheridan Trust II Certificate to the applicable Facilitation Trust (collectively, the "Participant Interest").

The Participant Interest is currently associated with the Corporation's Multi-Family Housing Revenue Bonds, 2006 Series A which will be fully redeemed on May 1, 2014, and would have otherwise terminated upon such redemption. The Participation Interest was originally associated with the Corporation's Multi-Family Housing Revenue Bonds, 2002 Series D and 2003 Series D, which were refunded with 2006 Series A Bonds. The Participant Interest is made up of two participation agreements, one with the New York City Mortgage Sale Facilitation Trust 2002-2, a Delaware statutory trust and the second with the New York City Mortgage Sale Facilitation Trust 2003-1, a Delaware statutory trust (together, the "Participation Agreement"). It is expected both participation agreements will be amended and restated in connection with the issuance of the 2014 Series B Bonds.

For more information on the underlying mortgage loan pool of the Participant Interest, please see Attachment "A".

2014 Series B Structuring Assumptions

The principal amount and maturities of the 2014 Series B Bonds are being structured based on the projected cash flows of the underlying mortgage loans of the Participant Interest using conservative payment assumptions based on the type of subsidy and the servicer of the mortgage loan. The Corporation also assumes there will be no prepayments and certain balloon payments will not be made in full.

To the extent the cash flow of the Participant Interest is greater than the debt service on the 2014 Series B Bonds and applicable fees including the Corporation's credit enhancement fee, the excess revenue may be applied to redeem an equal amount of the 2014 Series B Bonds. The Corporation and the City are currently considering the option, that pursuant to a cash flow statement, such excess revenues may instead be used for other permitted uses under the Open Resolution, such as acquiring mortgage loans of the Corporation. Acquired mortgage loans would provide security for the outstanding 2014 Series B Bonds. Any excess revenue that is used to acquire a new mortgage loan or redeem bonds other than the 2014 Series B Bonds instead of redeeming 2014 Series B Bonds would be accounted for pursuant to the terms of the Participation Agreement on a semi-annual basis after debt service and applicable fees are paid. When all of the 2014 Series B Bonds are redeemed, or an accounting of such excess revenue indicates that all of the 2014 Series B Bonds would have been redeemed had all excess revenue been used to retire such bonds, the underlying mortgage loans that comprise the Participant Interest will be returned to the City. If the assets are returned to the City before all of the 2014 Series B Bonds are retired, the additional mortgage loans acquired with excess revenue would provide security for any outstanding 2014 Series B Bonds. The purpose of the proposed structure is to reduce future transaction costs for the Corporation while providing additional access to capital to accomplish its housing goals.

The Corporation believes it is using a reasonable and prudent structuring approach. The valuation applied to the scheduled payments of the underlying mortgage loans has been established based on the overall historical programmatic performance of each type of loan, as well as the payment history of each underlying mortgage loan. The prepayment risk is comparatively low due to the predominance of subordinate loans and affordability regulations, and is further reduced because the 2014 Series B Bonds can be redeemed with prepayments. Lastly, the Corporation assumes a cap on certain balloon payments that corresponds to past experience with financing low-income developments in which the City and the Corporation tend to refinance the balloon to extend the affordability of the related development.

Use of the Corporation's General Obligation to Meet the Debt Service Reserve Account Requirement for the 2014 Series B Bonds

The rating agencies are expected to require a deposit to the Debt Service Reserve Account for the 2014 Series B Bonds in an amount equal to 5% of the outstanding 2014 Series B Bonds. In order to avoid using cash or issuing additional bonds to fund the reserve requirement for the 2014

Series B Bonds, the Corporation expects to use its general obligation to satisfy the Debt Service Reserve Account for the 2014 Series B Bonds. This is the same approach employed in connection with the issuance of the Open Resolution bonds for the previous loan securitization for the City in 2002 and 2003 as well as the subsequent refunding in 2006. Based on a not-to-exceed amount of $160,000,000 for the 2014 Series B Bonds, the amount of the Corporation's general obligation pledged is expected not to exceed $8,000,000. The Corporation will receive a fee for providing this credit enhancement, as described under the "Deposits and Fees" section below.

Security for the Bonds

The Bonds will be issued on a parity basis with all outstanding previous series of bonds issued under the Open Resolution from July 1993 to date. As a result, the Bonds will be secured on a parity basis with all the collateral currently held under the Open Resolution. As of January 31, 2014, that collateral consisted of the following:

TYPE OF COLLATERAL	# OF LOANS	AMOUNT	% OF TOTAL
FHA Insured Mortgage Loans	21	$ 47,356,010	0.98%
Fannie Mae/Freddie Mac Insured Mortgage Loans	21	248,537,514	5.13%
GNMA Insured Mortgages	3	131,123,015	2.71%
SONYMA Insured Mortgages	27	275,538,552	5.69%
REMIC Partially Insured Mortgages	184	990,705,794	20.44%
LOC Secured Mortgages	11	61,245,970	1.26%
Uninsured Permanent Mortgages	303	1,099,427,554	22.69%
Uninsured 2006 Series A Mortgages	307	257,988,294	5.32%
Partially Funded Construction Loans Secured by LOC	67	683,091,340	14.09%
Partially Funded Construction Loans Not Secured by LOC	11	172,690,234	3.56%
Sub-Total	955	3,967,704,277	81.87%
Undisbursed Funds in Bond Proceeds Account[1]		788,923,796	16.28%
Debt Service Reserve Account[2]		89,813,381	1.85%
Total*	955	$4,846,441,454	100%

* May not add due to rounding

Risks and Risk Mitigation

2014 Series B Bonds

The primary risk to the Corporation related to the 2014 Series B Bonds is the failure of

[1] Undisbursed Funds in Bond Proceeds Accounts are monies held by the Trustee for construction financing of projects under the Open Resolution.

[2] Includes a payment obligation of $1,560,750 of the Corporation which constitutes a general obligation.

mortgagors of the underlying mortgage loans to continue to make payments. This risk is greatly reduced by the composition of the underlying mortgage loans. The mortgage loans were first securitized under the Open Resolution with the issuance of the 2002 Series D Bonds and 2003 Series D Bonds and the majority are seasoned with good payment history. The conservative cash flow assumptions used to structure the 2014 Series B Bonds (See "Structure of the 2014 Series B Bonds") further mitigate the risk of a cash flow shortfall.

Interest Rate Risk

An additional risk to the Corporation related to the 2014 Series B-2 Bonds is the increase in variable interest rates, which is greatly reduced by an interest rate cap. Pursuant to the Corporation's Hedge Policy, the interest rate cap provider shall have a long-term credit rating from any nationally recognized rating agency that is within its three highest investment grade categories, or the obligations of the counterparty shall be unconditionally guaranteed by one or more entities with such respective credit ratings. The Corporation's staff believes that a default by a highly rated interest rate cap provider is an unlikely scenario. To further reduce the default risk, the Corporation may require the interest rate cap provider to collateralize its obligations in the event of a rating downgrade.

Pledge of Corporation's General Obligation

With respect to funding the debt service reserve account requirement for the 2014 Series B Bonds, the Corporation's staff believes that it is extremely unlikely that the Corporation's general obligation will ever be called upon given the conservative and prudent structuring approach, as well as the strength of the Open Resolution. The Corporation's obligation will also decrease with the amortization of the 2014 Series B Bonds.

Deposits and Fees

The Corporation is expected to earn a credit enhancement fee anticipated to be 1.25% on the outstanding 2014 Series B Bonds per year.

Ratings

The 2014 Series B-1 Bonds are expected to be rated AA by Standard and Poor's Rating Service ("S&P") and Aa2 by Moody's Investors Service ("Moody's").

The 2014 Series B-2 Bonds are expected to be rated AA/NR by S&P and Aa2 by Moody's.

Senior Managing Underwriter regarding 2014 Series B-1 Bonds

J. P. Morgan Securities LLC *(book-running manager)*
Goldman, Sachs & Co.

Co-Managing Underwriters regarding 2014 Series B-1 Bonds

Morgan Stanley & Co., LLC
Bank of America Merrill Lynch
Citigroup Global Markets Inc.
Siebert Brandford Shank & Co. L.L.C

Castle Oak Securities, L.P.
Wells Fargo Securities

Senior Managing Underwriters regarding 2014 Series B-2 Bonds

J. P. Morgan Securities LLC *(book-running manager)*
Castle Oak Securities, L.P.

Hedge Advisor for 2014 Series B-2

Mohanty Gargiulo LLC

Underwriter's Counsel

Orrick, Herrington & Sutcliffe LLP

Bond Trustee

The Bank of New York Mellon

Bond Counsel

Hawkins Delafield & Wood LLP

Action by the Members

The Members are requested to approve an authorizing resolution that provides for (i) the adoption of Supplemental Resolutions to the Open Resolution providing for the issuance of the 2014 Series B Bonds; (ii) the distribution of preliminary and final Official Statement(s) for the 2014 Series B Bonds; (iii) the execution of bond purchase agreement(s) or direct placement agreement(s) with the Underwriter(s) of the 2014 Series B Bonds or a direct purchaser of any or all of the 2014 Series B Bonds; (iv) the use of the Corporation's unrestricted reserves to fund costs of issuance, capitalized interest and mortgage reserves for Bonds, as may be required; (v) the use of a "Cash Equivalent" (under the Open Resolution), in the form of the Debt Service Reserve Account Funding Agreement, to satisfy the Debt Service Reserve Account requirement with respect to the 2014 Series B Bonds; (vi) the execution by the President or any authorized officer of the Corporation of any and all documents necessary to issue the 2014 Series B Bonds including any amendments to, or any amendment and restatement of, the Amended and Restated Participation Agreement by and between the Corporation and the New York City Mortgage Sale Facilitation Trust 2002-2, as amended, and/or the Participation Agreement by and between the Corporation and the New York City Mortgage Sale Facilitation Trust 2003-1, as amended; and (vii) the execution by the President or any authorized officer of the Corporation of any and all documents necessary to purchase an interest rate cap.

In addition, the Members are requested to authorize the use of the Corporation's general obligation pledge in an amount expected not to exceed $8,000,000, or such greater amount as may be required by the rating agencies, in the form of the Debt Service Reserve Account Funding Agreement.

Attachment "A"
Participant Interest

Type	Supplemental Security	Subsidy Program(s)	Number of Mortgage Loans	No. of Units	Aggregate Outstanding Mortgage Balance	Weighted Average Mortgage Interest Rate	Weighted Average Remaining Time to Maturity	Percentage Self-Amortizing Loans	Percentage Senior Position Loans
Purchased Mortgage Loans	N/A	Section 8 Mod Rehab/PLP	5	82	$484,938	1.00%	6.9 years	100.00%	41.24%
Purchased Mortgage Loans	N/A	HoDAG/PLP	3	383	$11,930,017	1.00%	13.2 years	15.01%	94.71%
Purchased Mortgage Loans	N/A	PLP	165	6,762	$158,573,154	1.00%	11.6 years	23.18%	41.37%
Purchased Mortgage Loans	N/A	N/A	5	2,302	$7,034,839	2.00%	23.5 years	1.33%	17.86%
Purchased Mortgage Loans	N/A	Article 8-A	34	1,634	$9,429,185	3.00%	11.3 years	83.20%	6.78%
Purchased Mortgage Loans	N/A	Article 8-A	54	3,936	$8,955,500	2.33%	11.5 years	89.11%	38.12%
	SUB-TOTAL		266	15,099	$196,407,633	1.19%	12.12 years	27.98%	41.96%
Trust Mortgage Loans	N/A	PLP	27	2,174	$54,715,700	1.17%	8.2 years	29.17%	98.65%
Trust Mortgage Loans	N/A	N/A	14	2,019	$6,864,961	5.75%	4.0 years	33.21%	100.00%
	SUB-TOTAL		41	4,193	$61,580,661	1.68%	7.78 years	29.62%	98.80%
	TOTAL		307	19,292	$257,988,294	1.31%	11.08 years	28.37%	55.52%