NYC HDC

NEW YORK CITY
HOUSING DEVELOPMENT
CORPORATION

MEMORANDUM

To: The Chairperson and Members

From: Gary Rodney
President

Date: May 25, 2016

Subject: Multi-Family Mortgage Revenue Bonds
(148th Street Jamaica), 2016 Series A
Approval of a Permanent Loan to be Delivered to FFB

I am pleased to recommend that the Members approve the issuance of the Corporation's Multi-Family Mortgage Revenue Bonds (148th Street Jamaica), 2016 Series A (the "Bonds") in an amount not expected to exceed $24,915,000 and participation in a taxable construction loan in an amount not expected to exceed $49,655,000. Interest on the Bonds is anticipated to be exempt from Federal, state and local income tax and will be subject to an allocation of private activity bond volume cap.

During construction, the Bonds are expected to be issued on a draw down basis initially as unrated variable rate index bonds to be directly purchased by Wells Fargo Bank Municipal Capital Strategies, LLC ("Wells Fargo Direct Purchaser") pursuant to a bond purchase agreement, and secured by a mortgage purchase agreement (described below) with Wells Fargo Bank, National Association, as agent for Wells Fargo Direct Purchaser ("Wells Fargo Servicer").

At permanent conversion, a senior loan in an amount not expected to exceed $74,570,000 is expected to be sold to the Federal Financing Bank ("FFB"), a federal corporation under the supervision of the U.S. Department of the Treasury, as part of FFB's New Construction/Substantial Rehab Insured Upon Completion Program (referred herein as the "Forward FFB Execution"). All, or a portion, of the permanent loan may be initially funded with the Corporation's unrestricted reserves, and is expected to be insured under the Corporation's Risk-Sharing program with the U.S. Department of Housing and Urban Development ("HUD"). The Members of the Board originally approved HDC's participation in the FFB Program and the use of the Risk- Sharing program for FFB in September 2014.

This memorandum will provide a description of the Loans, the Project, the Borrower and the Mortgagor (each of the capitalized terms to be defined below), and a discussion of the structure, security and risks of the Bonds.

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The Loans

The proceeds of the Bonds will be used to make a construction loan (the "Bond Loan") to 94th Avenue Jamaica LLC and 94th Avenue Jamaica LI LLC, each a New York limited liability company (together, the "Borrower") for the purpose of financing a portion of the costs of acquiring and constructing 95 low income units (the "Low Income Units") in a 380 unit multi-family rental housing development to be located at 147-20 94th Avenue in Queens (the "Project") and to be developed under the Corporation's Mixed-Middle (M2) Program. The Bond Loan is expected to have a three-year term and an interest rate equal to the interest rate on the Bonds.

The Project will also be financed with a construction loan (the "Bank Loan") originated by the Corporation and, pursuant to a participation agreement, funded by Wells Fargo Servicer in an anticipated amount not to exceed $49,655,000 during construction. The proceeds of the Bank Loan will pay a portion of the costs of acquiring and constructing the middle and moderate income residential units of the Project.

The transaction is structured to separately finance the low-income portion of the Project with tax-exempt bond proceeds. The bifurcated structure enables a project to satisfy Federal low-income housing tax credit requirements with a smaller allocation of new private activity bond volume cap from the Corporation.

The Project expects to receive an additional loan from the Corporation's unrestricted reserves in an anticipated amount not to exceed $33,440,000 (the "Subordinate Loan"). The Subordinate Loan will have an interest rate equal to the Applicable Federal Rate as recently published by the Internal Revenue Service ("AFR"), with set lower monthly payments of 1%, to be advanced during construction and to remain in the project as a permanent loan. The Subordinate Loan will not be credit enhanced.

Pursuant to staff's request and the Member's approval, it is expected that the development will receive subordinate financing from the Corporation's unrestricted reserves in a total amount greater than the current Mixed-Middle program guidelines because of the size of the Project and the number of affordable units to be financed; however, the per unit amount will be within the program parameters.

Project Description

The Project site was rezoned as part of the Special Downtown Jamaica Rezoning adopted by the NYC Department of City Planning in June 2007. The re-zoning was initiated to foster additional transit-oriented development around the multimodal transportation hub in Jamaica.

148th Street Jamaica is a proposed 380-unit development to be comprised of 112 studios, 185 one-bedroom units and 82 two-bedroom units. In addition, there will be a two-bedroom unit for a superintendent who will live on-site. The Project will be a twenty-five story residential elevator building and will include the following amenities: lounge, children's play room, fitness center, courtyard, laundry, tenant storage, and rooftop access. The Project will also include 111 parking spaces reserved for the residential tenants.

The Low Income Units will consist of 28 studio units, 47 one-bedroom units and 20 two-bedroom units. It is expected that 15 residential units (3.95% of the Project) will be reserved for tenants earning no more than 50% of Area Median Income ("AMI"), which is currently $45,300 for a family of four and that 80 residential units (21.05% of the Project) will be reserved for tenants earning no more than 60% of Area Median Income ("AMI"), which is currently $54,360 for a family of four.

It is expected that the Project will also contain three middle income tiers: 1) with 110 residential units (28.95% of the Project) reserved for households earning no more than 120% of AMI, which is currently $108,720 for a family of four, 2) with 40 residential units (10.53% of the Project) reserved for households earning no more than 130% of AMI, which is currently $117,780 for a family of four and 3) 134 residential units (35.26% of the Project) reserved for households earning no more than 165% of AMI, which is currently $149,490 for a family of four.

Following initial occupancy, rents for units in the Project will be subject to Rent Stabilization (as defined under New York State law). Pursuant to the terms of a regulatory agreement to be executed by the Corporation and the Borrower (the "Regulatory Agreement"), the occupancy restrictions will remain in effect for as long as the Bonds are outstanding and for a minimum of forty (40) years from the date the Project is first occupied (the "Occupancy Restriction Period"), which will be co-terminus with the Article XI tax abatement that the project expects to receive. All of the tenants in occupancy at the expiration of the Occupancy Restriction Period will be protected by the terms of the Regulatory Agreement, which mandates that the tenants be offered continuous lease renewals in accordance with Rent Stabilization. Pursuant to the terms of an Inclusionary Regulatory Agreement to be executed by New York City's Department of Housing Preservation and Development and the Mortgagor (the "IH Regulatory Agreement"), the occupancy restrictions on the 95 Low-Income Units will remain in effect in perpetuity.

A fact sheet with a brief description of the Project is attached (see "Exhibit A").

Borrower, Mortgagor and Developer Description

The Borrower is controlled by the principals of Phoenix Realty Development Corporation, LLC, whose individual members are Michael Freid, Keith Rosenthal, Ron Orgel, Daniel Epstein, Lester Korn and Richard Ferry and Artimus Construction, Inc., whose individual members are Ronen Haron, Eytan Benyamin, Robert Ezrapour, Ken Haron and Yoav Haron. The fee owner of the Property, who together with the Borrower is mortgaging its interest in the premises, is an affiliate of the NYC Partnership Housing Development Fund, Inc., a New York not-for-profit organization and a 501(c)(3) organization whose individual members are Dan Martin, Shelia Martin, Daniel Marks Cohen, Marie Iammatteo and Abigail Patterson. An entity of Goldman Sachs will also be a joint venture partner contributing a portion of the cash equity in the project.

Artimus Construction, Inc. ("Artimus") will be the co-developer of the Project. Artimus has more than 35 years of experience in developing affordable housing in Harlem, Washington Heights, Hamilton Heights, the Lower East Side and Manhattan Valley. Artimus has constructed nearly four million square feet of new mid- and high-rise projects that include residential, commercial, retail, and mixed-use properties. To date, Artimus has completed thirteen projects with HDC financing. The last three projects were Elliott Chelsea (2010), 260 West 26th Street (2011) and Harlem River Point South (2012). All projects have converted to permanent financing.

Phoenix Realty Group ("PRG") has a diverse history in real estate as both an owner-operator and a fund manager focused on multifamily strategies in the United States. Headquartered in New York City, with an investment office in California and a branch in Florida, PRG currently manages more than $1.35 billion in assets and nearly 10,000 apartment units across the U.S. PRG's principals have invested in more than 1,000 multifamily properties representing approximately 130,000 apartment units and $12 billion in real estate over 30+ years. PRG was the developer of the following HDC projects: Albany Crossings (2007), Restore Housing (2007), Kingston Heights (2010), Keith Plaza (2015) and Kelly Towers (2015).

The NYC Housing Partnership (the "Housing Partnership") is a not-for-profit 501(c)3 organization with a 30-year history of serving as an intermediary for the development of affordable housing in New York City. The Housing Partnership facilitates partnerships between the City, State, and private sectors to build affordable homes in neighborhoods throughout the City's five boroughs. In its 30-year history, the Housing Partnership has participated in the development of more than 30,000 affordable housing units and leveraged more than $4.2 billion in private sector financing, with another 4,000 units in construction or predevelopment. At 148th Street Jamaica, the newly created Housing Partnership entity HP Jamaica 94th Avenue HDFC will be the record fee owner of the premises.

<u>Structure of the Bonds</u>

The Bonds will be issued as unrated, variable rate index bonds to be directly purchased by Wells Fargo Direct Purchaser pursuant to a bond purchase agreement. The Bonds will be issued as "draw down" bonds; however, for volume cap purposes only, the entire amount will be considered issued at closing. The Bonds shall initially bear interest at a floating rate expected to be re-set periodically based on 70% of the most recent London Inter-Bank Offered Rate ("LIBOR") Market Index Rate as re-set monthly, plus a spread expected to be 2.15%. Similar to other multi-modal transactions undertaken by the Corporation, the 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 Mortgagor with the approval of the credit enhancer and the Corporation pursuant to the terms of the Bond Resolution.

The Bonds will be subject to a maximum interest rate of 12% 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 are expected to have a final dated maturity of July 1, 2059; however, the Bonds are expected to be redeemed by the Corporation upon conversion of the Project to permanent financing, as described below.

Security for the Bonds

The Bonds will be secured by a mortgage purchase agreement with Wells Fargo Servicer, as agent for Wells Fargo Direct Purchaser ("MPA" or "Mortgage Purchase Agreement"). If the Trustee has not received any amount due and owing under the Bonds or otherwise required by the Resolution, upon notice after an opportunity to cure any defaults, Wells Fargo Servicer shall have (i) the option to pay such amount or (ii) the obligation to purchase the Bond Loan note and mortgage from the Corporation resulting in the redemption of the Bonds. Even if Wells Fargo Servicer fails to pay the purchase price, the Bond Loan note and mortgage will be assigned to Wells Fargo Servicer and the Bonds will be canceled under the terms of the Resolution. In the event the Bond Loan note and mortgage are assigned to Wells Fargo Servicer as described above, the participation in the Bank Loan will be terminated and the Corporation will assign the Bank Loan to Wells Fargo Servicer.

The Bond Resolution will permit the provision of a credit facility or MPA, as long as the Corporation provides the Trustee certain items detailed in the Bond Resolution including, but not limited to, (i) an opinion of bond counsel stating that the credit facility or MPA meets the requirements of the Bond Resolution and will not adversely affect the tax exemption relating to the Bonds, (ii) with respect to a credit facility replacing an MPA, a letter from at least one nationally recognized rating agency to the effect that such credit facility will provide Bonds with an investment grade rating, and (iii) with respect to the replacement of any MPA, the approval of the Members of the Corporation. The Borrower must pay all costs incurred by the Trustee and the Corporation in connection with the provision of a substitute credit facility or MPA.

Under the terms of the 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.

Structure and Security of FFB Permanent Loan

At permanent conversion the Bond Loan and Bank Loan will be consolidated into a single permanent loan (the "Loan" or "Permanent Loan") not expected to exceed $74,570,000 that will be structured as a senior permanent mortgage loan secured by the fee simple interest in the Project. The proceeds of the Permanent Loan will be used to repay the Bond Loan and the Bank Loan. The Loan is expected to be enhanced with mortgage insurance arranged by the Corporation under its Risk-Sharing agreement with HUD. It is expected that the Corporation will assume 50% of the default risk, which is a requirement for participation in the FFB program. The Loan will be originated with a 40-year term and is expected to have an interest rate of 4.75%.

On or after the permanent conversion of the Loan, FFB is expected to purchase a beneficial ownership interest in the Loan in a manner similar to previous transactions done between FFB and HDC. FFB will receive a purchaser pass-through rate established by FFB, which will not exceed the interest rate on the mortgage loan and is expected to approximate the rate that the market is then providing on a comparable Ginnie Mae security.

In the event the permanent conversion of the Loan occurs prior to the purchase of the Loan by

FFB, the permanent Loan may be initially funded with the Corporation's unrestricted reserves.

Purchase of Interest Rate Swap

The Loan will be the first HDC loan to be executed under the FFB's New Construction/Substantial Rehab Insured Upon Completion Program (the "Forward FFB Execution"), which is FFB's latest effort to make its FHA Risk Share Loan Participation Funding program work for new construction and substantial rehab. The interest rate to be established by FFB for this transaction will not be determined until a date within two months of delivery of the permanent FHA-insured loan. To protect against interest rate volatility associated with the Forward FFB Execution during the approximately 3-year construction period, the Corporation expects to purchase a LIBOR-indexed interest rate swap from a qualified interest rate provider pursuant to the hedge policy, approved by the Members on April 10, 2014 (the "Hedge Policy"). It is expected that the interest rate swap will be a three year forward starting swap with a twenty-six year weighted average life to be set at an anticipated rate of 2.70% based on the current market. If the interest rate environment were to trend upwards over the next three years and the LIBOR swap rates increased above the hedge rate, the swap counter party would be obligated to pay HDC if the swap were terminated. This payment would offset the upward movement that would also likely occur in the rate established by FFB. If the interest rate environment were to trend downwards over the next three years and the LIBOR swap rates decreased below the hedge rate, HDC would be obligated to pay the swap counter party if the swap were terminated. In addition, to the interest rate volatility risk, there is basis risk since the FFB rate will be tied to Treasuries and the swap will be LIBOR-indexed. The interest rate volatility risk and the basis risk are mitigated by two factors: 1) HDC can choose to keep the swap outstanding and use the swap to hedge HDC's outstanding LIBOR-indexed variable rate debt under the Corporation's Open Resolution and 2) in a lower interest rate environment, HDC will be able to lock in a lower rate with FFB on the Permanent Loan.

Risks and Risk Mitigation

The primary risk associated with the Bonds is the potential failure of Wells Fargo Servicer to honor its obligations under the MPA, which would be a default under the transaction documents. However, the Bond Resolution and the MPA will mitigate this potential risk because even if Wells Fargo Servicer fails to honor its obligation upon a default by the Mortgagor, the Bond Loan note and mortgage will be automatically assigned to Wells Fargo and the Bonds will be retired. Additionally, under certain circumstances, the Bond Resolution allows the Corporation to require the replacement or substitution of the credit enhancement, at the Corporation's option. The likely circumstance under which the Corporation might require a replacement or substitution would be if the respective bank was downgraded to below investment grade. Wells Fargo is currently rated AA- by Standard & Poor's Ratings Services and Aa1 by Moody's Investors Service.

The Corporation has no financial obligation to fund the Bank Loan.

The primary risk associated with the Permanent Loan is a payment default by the borrower. The Corporation's staff believes that this risk is mitigated by the Risk-Sharing mortgage insurance, strict underwriting, the Borrower's history in constructing, operating and managing similar projects, and the Corporation's ongoing asset management and monitoring of the development. The Corporation will be obligated to cover 50% of the total loss following a claim on the Risk-Sharing mortgage insurance. Corporation staff believes this is an acceptable risk given the favorable terms of the FFB financing.

Fees

The Mortgagor will be obligated to pay the Corporation its costs of issuance for the Bond and Bank loan in an amount not to exceed 1.00%, plus an up-front commitment fee equal to 1.00% of the Bonds and a mortgage purchase agreement fee of 0.25% of the Bonds. In addition, the Mortgagor will be obligated to pay a mortgage participation fee of 1.00% on the Bank loan.

Wells Fargo Servicer will receive an origination fee equal to approximately 0.85% of the aggregate amount of the Bond Loan and Bank Loan.

Rating

It is expected that the Bonds will be unrated.

Trustee/FFB Custodian

U.S. Bank

Bond Counsel

Hawkins Delafield & Wood LLP

Hedge Advisor

Mohanty Gargiulo

Pricing Advisor

Caine Mitter & Associates Inc.

Action by the Members

The Members are requested to approve an authorizing resolution which provides for (i) the adoption of the Bond Resolution, (ii) the execution of the bond purchase agreement regarding the direct purchase of the Bonds, (iii) the execution of the Mortgage Purchase Agreement with respect to the Bonds, (iv) the issuance of the Bonds as draw down bonds, and (v) the execution of mortgage related documents and any other documents necessary to accomplish the issuance of the Bonds and the financing of the Bond Loan.

The Members are requested to approve the origination at construction loan closing of a construction loan in an amount not to exceed $49,655,000 to finance a portion of the construction of the Project and a participation agreement with the Bank pursuant to which the Bank will acquire a participation interest in such loan, and the execution by an authorized Officer of the Corporation of mortgage related documents and any other documents necessary to accomplish the participation.

The Members are being requested to approve i) the making of a permanent loan in an aggregate amount not to exceed $74,570,000, which may be initially financed by Corporate Reserves, for the permanent financing of 148th Street Jamaica, and ii) the execution by an Authorized Officer of the Corporation of mortgage related documents and any other documents necessary to accomplish the financing.

Members are requested to approve the making of a subordinate loan to be funded by the Corporation's unrestricted reserves in an amount not to exceed $33,440,000, and the execution by an Authorized Officer of the Corporation of mortgage related documents and any other documents necessary to accomplish the subordinate financing.

Members are requested to approve the execution by the President or any Authorized Officer of the Corporation of any and all documents necessary to enter into an interest rate swap agreement.

Exhibit A

148th Street Jamaica
Jamaica, New York

Project Location:	147-20 94th Avenue, Queens, NY 11435 Block 9999, Lots 9,10,11,13, and 15 (to be Lot 9)
HDC Program:	Mixed-Middle (M2) Income Program
Project Description:	This project will consist of the new construction of 380 units in one 25-story building in the Jamaica neighborhood of Queens. Total project square footage is approximately 362,480 gross square feet.
Total Rental Units:	380

Apartment Distribution:

Unit Size	No. of Units
Studio	112
1 bedroom	185
2 bedroom	83
Total Units*	380

**Total Units is inclusive of 1 two-bedroom super's unit.*

Middle Income Units *(rents set at 30% of 130% AMI):*	134
Middle Income Units *(rents set at 30% of 120% AMI):*	40
Moderate Income Units *(rents set at 30% of 100% AMI):*	110
Low-Income Units *(rents set at 30% of 57% of AMI):*	80
Low-Income Units *(rents set at 30% of 47% of AMI):*	15
Expected HDC Tax-Exempt Bond Financing Amount:	$21,440,000

Expected HDC Construction Financing Amount:	$43,125,000
Expected HDC Permanent Financing Amount:	$64,565,000
Expected HDC Second Mortgage Amount:	$30,400,000
Bond Structure:	Index Rate; may be converted to other modes
Credit Enhancement:	Mortgage Purchase Agreement from Wells Fargo Bank, NA
Owner:	94th Avenue Jamaica, LLC and 94th Avenue Jamaica LI, LLC, whose individual members are Michael Freid, Keith Rosenthal, Ron Orgel, Daniel Epstein, Lester Korn and Richard Ferry of Pheonix Realty Development Corporation and Ronen Haron, Eytan Benyamin, Robert Ezrapour, Ken Haron and Yoav Haron of Artimus Construction, Inc., and HP Jamaica 94th Avenue HDFC, an affiliate of the NYC Partnership Housing Development Fund, Inc., whose individual members Dan Martin, Shelia Martin, Daniel Marks Cohen, Marie Iammatteo and Abigail Patterson.
Developer:	**Artimus Construction, Inc.,** whose principals are Ronen Haron, Eytan Benyamin, Robert Ezrapour, Ken Haron and Yoav Haron **Phoenix Realty Development Corporation** whose principals are Michael Freid, Keith Rosenthal, Ron Orgel, Daniel Epstein, Lester Korn and Richard Ferry
Credit Enhancement:	Mortgage Purchase Agreement from Wells Fargo Bank, National Association (Construction); FHA (50/50) Risk Share (Permanent)

Underwriter/Remarketing Agent: N/A