MEMORANDUM

To: The Chairperson and Members

From: Gary Rodney  
President

Date: September 11, 2014

Subject: Approval of a Loan for Nordeck Apartments

I am pleased to recommend that the Members approve the origination from unrestricted reserves of one senior and one subordinate permanent loan to finance the first phase of the rehabilitation and preservation of Nordeck Apartments, a 343 unit Mitchell-Lama ("ML") limited equity cooperative development located in Arverne, Queens (the "Development") in an amount not to exceed $8,500,000 (the "Phase I Loan").

The financing is expected to be structured in two phases ("Phase I" and "Phase II"), however, Members are only asked to authorize the loan amount for the Phase I Loan at this time. It is expected that the Development will eventually be financed with taxable bond financing as part of a future Open Resolution issuance and the Corporation will be reimbursed for any advances made for the senior Phase I Loan from unrestricted reserves. The Phase II financing of this development will require further authorization by the Members at a later date.

Background

It is expected that the Development will be financed in accordance with the Corporation’s Mitchell-Lama Restructuring Program ("MLRP"), a program which seeks to preserve middle-income housing across all five boroughs. The State of New York created the Mitchell-Lama Housing Program in 1955 with the purpose to develop rental and cooperatively owned affordable housing for middle-income residents. The program permits the mortgagor to prepay its mortgage loan after twenty years from the date of initial occupancy, releasing them from ML regulation. HDC refinanced over 80 ML developments in the late 1970s and created MLRP in 2004 in order to fund capital and financing needs of this portfolio and other ML developments. Since December of 2004, the Corporation has successfully refinanced or provided subsidy loans for over 50 ML properties totaling approximately 32,890 units. The MLRP has preserved the affordability of projects that might have otherwise exited the ML program and provided construction financing for needed repairs. Many ML developments that have not yet refinanced have significant deferred repair needs; in the case of Nordeck Apartments, the deferred repair
needs have been intensified by damages related to Superstorm Sandy. Completion of these deferred repairs will impact over 340 families, including both long-term and new tenants.

The Development is a State-supervised ML cooperative development that has not received HDC financing previously; however, the Corporation is well positioned to finance the Development’s rehabilitation based on the breadth of the Corporation’s existing Mitchell-Lama Restructuring Program and its expertise with Mitchell-Lama cooperatives. In addition, the State supervising agency, New York State Division of Housing & Community Renewal (“DHCR”), requested that HDC undertake the proposed financing for the Development.

A description of the Development, its proposed financing structure, and the requested action by the Members follows.

**Property Description**

The Development is currently a State-supervised ML cooperative development in the Arverne section of Queens. The Development consists of six buildings comprising a total of 343 residential units (including one superintendent’s unit) and one commercial unit (a dentist’s office). The tenant shareholders are represented by a board (“Co-op Board”) and have owned and operated the Development as a ML cooperative since 1960. The current income of the Development’s shareholders averages to 58% of the Area Median Income (“AMI”) and a majority of the current shareholders are elderly. Upon closing the Phase I Loan, the HDC Regulatory Agreement will require the Development to remain in the ML program for up to 30 years.

Unlike most developments that participate in MLRP, the Development refinanced its first mortgage debt relatively recently. In early 2008, Wachovia Multifamily Capital, Inc., an originating lender to Freddie Mac at the time and now known as Wells Fargo Multifamily Capital (“Wells Fargo”), originated a 20-year, 5.86% rate senior loan in the amount of $5.6 million. Proceeds from the refinancing satisfied the existing mortgage and paid outstanding payables. The remaining balance was put into a repair escrow account, which currently holds $2.8 million. The Co-op Board approved a significant maintenance increase in connection with the 2008 refinancing.

In September 2012, the Development entered into a construction contract to perform a two phase scope of work but just one month later Superstorm Sandy caused over $1 million in damages to the Development. Post-storm, Wells Fargo, acting as servicer for Freddie Mac, agreed to defer debt service, and has since extended the forbearance period three times.

Even with loan payments in forbearance, the Development’s ability to balance the Sandy recovery work with the ongoing construction proved to be extremely difficult. One reason is that Freddie Mac holds the aforementioned repair escrow account and has not released any funds for repair work that is outside of the original scope of repair work started in September 2012 until payment of debt service resumes or the outstanding debt is repaid. As a result, the Development has fallen into very poor condition, despite having a reserve account with almost $3 million. The proposed refinancing with the Corporation will allow the Development to tap into this reserve fund and fully recover from the effects of Superstorm Sandy.

An additional factor contributing to the Development’s inability to find solid footing is its 16%
vacancy rate. On July 29, 2014, HDC staff inspected the property and found it to be in very poor condition. The Co-op Board has stated that potential cooperators are dissuaded by the property’s visibly deteriorating condition, and the vacant units are in need of work ranging from moderate to major repairs. Based on DHCR’s assessment of the Development, a majority of the vacant units are in need of moderate repairs up to $15 thousand per unit, and the remaining units are in need of major repairs up to $50 thousand per unit. The exact need of the will be determined based on a physical needs assessment of the property.

For more information on the Development, please see Attachment “A.”

Proposed Financing Structure

The financing is expected to be structured in two phases. The Phase I Loan proceeds will pay off the outstanding debt. The existing repair escrow account will pay for a portion of outstanding payables, including payment of an existing construction contract. A portion of the Phase I Loan proceeds will pay for other remaining outstanding payables, including back payment for heating oil and certain storm recovery costs, third party reports, and other soft costs. The Phase I Loan debt service will be paid as interest only and will be capitalized in an interest reserve account held by the Corporation.

Between Phase I and Phase II, the Corporation will work with the Co-op Board to develop a scope of work to be financed in Phase II. The Phase II construction loan proceeds are expected to address certain short and long-term repairs, including but not limited to in-unit repairs, common space work, roof repairs, a boiler replacement, removal of a temporary oil tank corroded with salt water, repair of scattered hot water leaks, and removal of about 50 trees destroyed by Superstorm Sandy. The Phase II construction loan’s debt service will be supported with a maintenance charge increase and reduced vacancies. Members will be asked to approve the Phase II financing at a later date.

The Corporation will work with the Co-op Board to prioritize unit repairs and common space work that will reduce the Development’s vacancy rate and produce much needed cash flow to the property. The Corporation anticipates using funds from its Program for Energy Retrofit Loans (“PERL”) approved by the Members on December 7, 2012 (known then as the Energy Retrofit Loan Program) during Phase II to finance capital improvements related to energy efficiency and flood resiliency work as well.

Action by the Members

The Members are being requested to approve i) the making of one senior and one subordinate permanent loan in an aggregate amount not to exceed $8,500,000, from the Corporation’s unrestricted reserves, to refinance Nordeck Apartments pursuant to the ML Restructuring Program, and ii) the execution by an authorized Officer of the Corporation of mortgage related documents and any other documents necessary to accomplish the financing.
Attachment “A”

Nordeck Apartments
Queens, NY

Project Location: 353 Beach 57th Street, 325 Beach 57th Street, 349 Beach 57th Street, 324 Beach 59th Street, 320 Beach 59th Street, 321 Beach 57th Street
Arverne, NY
Block 15895, Lot 50

HDC Program: Mitchell-Lama Restructuring Program

Project Description: Nordeck Apartments consists of a two-phase rehabilitation and refinancing of 6 buildings with 343 residential rental units.

Total Units:

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*Total units are inclusive of one 2-bedroom Superintendent Unit

Estimated HDC Mortgages: $6,880,000 (Senior)
                          $760,000 (Subordinate)

Tax Abatement: Mitchell Lama (Article II)

Developer: Arverne Limited Housing Company

Architect: N/A (Refinancing portion only)

General Contractor: N/A (Refinancing portion only)