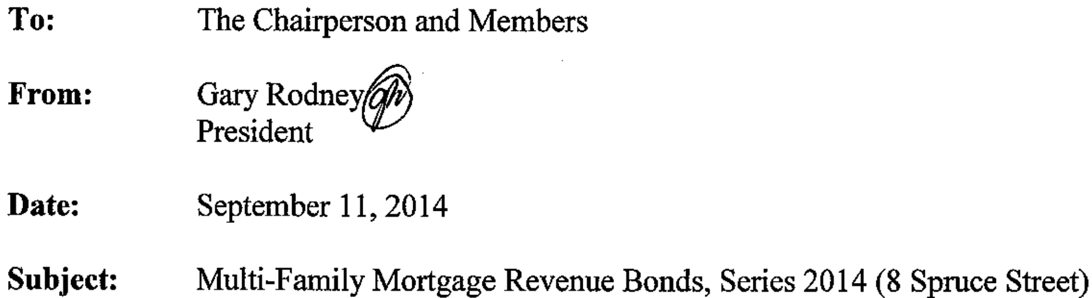
NEW YORK CITY
HOUSING DEVELOPMENT
CORPORATION

MEMORANDUM



To: The Chairperson and Members

From: Gary Rodney
President

Date: September 11, 2014

Subject: Multi-Family Mortgage Revenue Bonds, Series 2014 (8 Spruce Street)

I am pleased to recommend that the Members approve the issuance of the Corporation's Multi-Family Mortgage Revenue Bonds, Series 2014 (8 Spruce Street) (the "Bonds") in a combined amount not to exceed $610,000,000.

Background

A portion of the proceeds of the Bonds in an amount not to exceed $203,900,000 (the "2014 Liberty Bonds") will be used to refund the Corporation's Multi-Family Mortgage Revenue Bonds (Beekman Tower), 2008 Series A (the "Prior Liberty Bonds"). The remaining proceeds of the Bonds in an amount not to exceed $406,100,000 (the "2014 Taxable Bonds") will be used to refund the Corporation's Multi-Family Mortgage Revenue Bonds (Beekman Tower), 2009 Series A-1, 2009 Series A-2, 2010 Series A-1 and 2010 Series A-2 (collectively, the "Prior Taxable Bonds"; together with the Prior Liberty Bonds, the "Prior Bonds") and pay certain related costs.

Interest on the 2014 Liberty Bonds is anticipated to be exempt from Federal, state, and local income tax. Interest on the 2014 Taxable Bonds will not be exempt from Federal income tax, but is anticipated to be exempt from state and local income tax.

The Bonds are expected to be issued as fixed rate obligations, structured in multiple classes in a manner consistent with the existing Commercial Mortgage Backed Securities ("CMBS") criteria of national rating agencies, as further described in the section titled Structure of the Bonds below. A similar structure was recently used by the New York Liberty Development Corporation for two other non-housing Liberty Bond projects – 7 World Trade Center and One Bryant Park. Based on the positive market reception from both transactions, the Corporation expects the proposed execution to provide an effective financing tool for the 8 Spruce Street development (formerly known as Beekman Tower) to refund its outstanding variable rate debt and lock in a fixed rate in the current low rate environment. This would be the Corporation's first transaction to be structured as CMBS and will allow for the preservation of the tax-exempt

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Liberty Bond financing without the cost for the Borrower (as defined below) of arranging and paying for long-term credit enhancement.

This memorandum will provide a description of the Project and the Borrower, and a discussion of the structure and security for the Bonds.

Project Description

The Bonds are being issued to refinance the Corporation's financing used to construct 8 Spruce Street (the "Project"). The Project is residential rental and retail unit of a four-unit mixed-use condominium development contained in one 76-story building located at 8 Spruce Street in lower Manhattan, designed by architect Frank Gehry and completed in March 2011.

The Project was originally financed in part with a special allocation of the Prior Liberty Bonds. Liberty Bonds were authorized by Congress under The Job Creation and Worker Assistance Act of 2002 (the "Liberty Bonds Program"). The original financing of the Project was the seventh and final transaction by the Corporation under the Liberty Bonds Program. The Project received approval in 2008 to be allocated as Liberty Bonds by the joint State-City Liberty Bond Committee, and the 2014 Liberty Bonds will not require re-designation by the Committee.

The Project contains 899 units (including three units not serving as rental units available to the public) consisting of 190 studio units, 512 one-bedroom units, 169 two-bedroom units, 24 three-bedroom units, 4 penthouse units, and approximately 1,200 leasable square feet of retail commercial space. As of August 2014, the Project was approximately 99% leased.

The three remaining condominium units were financed separately and are not part of the Project and consist of: (i) an ambulatory care center on portions of floor 1 and floor 5 that is owned and operated by an entity affiliated with the New York Presbyterian Hospital, (ii) a below grade parking garage that is also owned by an entity affiliated with the hospital, and (iii) a pre-Kindergarten through 8th grade New York City public school that is owned and operated by the New York City School Construction Authority.

All developments financed by the corporation under the Liberty Bonds Program have no income restrictions or other affordability requirements. The Project did receive a 20-year 421-a tax abatement and is therefore subject to rent stabilization laws.

Please see "Exhibit A" for additional information.

Borrower Description

The proceeds of the Bonds will be used to provide a loan in an expected amount of $550,000,000 (the "Loan") to FC 8 Spruce Street Residential, LLC (the "Borrower"), a duly organized, single-purpose New York limited liability company that is expected to convert to a Delaware limited liability company in conjunction with this transaction. The Borrower is created and controlled by several layers of intermediate entities, all of whom are owned and controlled by a joint venture between: (i) Bruce C. Ratner, Forest City Enterprises, Inc. and its key principals,

key employees and affiliates; (ii) the Teachers Insurance and Annuity Association of America, Inc. ("TIAA"); and (iii) National Real Estate Advisors, LLC ("NREA").

Forest City Enterprises, Inc., a $10 billion publicly traded real estate company, is principally engaged in the ownership, development, acquisition and management of commercial and residential real estate throughout the United States. It is a NYSE-listed real estate company (NYSE: FCEA and FCEB), based in Cleveland, Ohio. Its portfolio includes interests in retail centers, apartment communities, office buildings and hotels throughout the United States.

TIAA is a privately owned investment manager that was founded in 1918 and is headquartered in New York, New York. TIAA manages approximately $564 billion in assets as of 2013 year-end and is the leading provider of retirement services in the academic, research, medical and cultural fields.

NREA manages more than $1.9 billion of client capital invested in more than $5.3 billion of property nationwide. Founded in 2010, NREA is the third largest pension fund in the United States. NREA was formerly the real estate investment department of National Electrical Benefit Fund ("NEBF"), which was founded in 1946 by the International Brotherhood of Electrical Workers and the National Electrical Contractors Association with the goal of forming a sound retirement plan to ensure the financial security of workers in the electrical industry across North America. NREA now acts independently, continuing its mission on behalf of NEBF and new investors.

Structure of the Bonds

The Bonds are expected to be structured as fixed rate obligations following a sequential pay structure, as further described below. To achieve the lowest interest rates for the Project, the 2014 Taxable Bonds and the 2014 Liberty Bonds are expected to be structured into three and four classes, respectively (each, a "Bond Class"), with the Bond Classes of 2014 Taxable Bonds having higher payment priorities and the Bond Classes of 2014 Liberty Bonds having lower payment priorities. The Bonds will have an approximate final maturity of March 1, 2048, but the Bonds are expected to be repaid in approximately ten years from the issuance of the Bonds (the "Anticipated Repayment Date"). The Bonds will be interest only obligations, and after the Anticipated Repayment Date, if the Bonds have not yet been repaid, all available cash flow from the Project will be "trapped" in a cash management account controlled by the Master Servicer or Special Servicer (as defined below) and used to pay down principal sequentially by Bond Class. All interest payments and principal payments, if any, on the Bonds will be made first to holders of the most senior Bond Class (Class A) until the balance owed to them is zero, then to holders of the next most senior Bond Class (Class B) until the amount owed to them is reduced to zero, and so on and so forth until all amounts owed to holders of the most junior Bond Class (Class G) have been paid.

After the Anticipated Repayment Date, the interest rate will increase and begin to accrue and defer on any unpaid principal amount. The excess interest will become due after all principal on all Bond Classes have been repaid. The capture of the Project's cash flows and the increased

interest rate provide a strong incentive to the Borrower to repay or refinance the Bonds in the tenth year.

Corresponding to each Bond Class, the Loan will be divided into the same number of components as illustrated below (each, a "Loan Component"). Each Loan Component will have the same rate as that of the corresponding Bond Class, except interest on the Loan Components corresponding to the 2014 Taxable Bonds will include servicing and other fees. The interest on each Bond Class will differ based on the payment priority and the expected credit rating. The Members are asked to authorize a not-to-exceed true interest cost of 15% with respect to the aggregate principal amount of the Bonds; however, it is expected that the true interest cost with respect to the aggregate principal amount of the Bonds will not exceed 4.5%.

Loan Component	**Expected Tax Status**	**Bond Class**	**Class Priority**	**Credit Rating**	**Interest Rate**
Component A	Taxable	Class A	Highest	Highest	Lowest
Component B	Taxable	Class B	↓	↓	↓
Component C	Taxable	Class C			
Component D	Liberty	Class D			
Component E	Liberty	Class E			
Component F	Liberty	Class F			
Component G	Liberty	Class G	Lowest	Lowest	Highest

The Authorizing Resolution relating to the Bonds, though, will provide that a senior officer of the Corporation may determine to create a different number of Bond Classes to be issued under the Indenture as long as the combined amount for the Bonds does not exceed $610,000,000.

The Servicer

The primary servicer of the Loan (the "Master Servicer") will service and administer the Loan while it is performing. In the event of a default, the servicing of the Loan will be transferred to a special servicer (the "Special Servicer", and together with the "Master Servicer", the "Servicers"). The Master Servicer will have certain obligations to make advances ("Servicing Advances") to pay the debt service when there is a shortfall, except when it has reasonably determined that such advances would not be recoverable from subsequent payments or collections from the Borrower. The Bonds will not be structured with a debt service reserve fund because the Master Servicer is required to make Servicing Advances to pay debt service on the Bonds.

The Servicer will also be empowered under the servicing agreement to take almost all prudent actions in order to protect the interests of the purchasers of the Bonds ("Bondholders") with respect to the Project. However, the Servicer must receive the Corporation's consent for actions involving transfers of the Project, changes in the managing agent of the Project, and defaults under the Regulatory Agreement; and the Servicer will not be allowed to take any actions that

would extend the maturity date of the Bonds or that would jeopardize the exemption from Federal income tax of interest on the 2014 Liberty Bonds.

Because of the responsibilities entrusted to the Servicers and the significance of Servicing Advances to Bondholders, the expertise and rating of the Servicers are important factors in selecting a Servicer. Bank of America Merrill Lynch, the lead Underwriter for this transaction, is expected to select Wells Fargo, N.A. ("Wells Fargo") to be both the Master Servicer and the Special Servicer. Rating agencies rate servicers using specific criteria particular to their ability to service loans and fund advances for CMBS transactions like the one contemplated by this memorandum. Wells Fargo is expected to be selected because of its experience as a servicer for CMBS transactions. Standard & Poor's Rating Service has rated Wells Fargo "Above Average" as both Commercial Master & Primary Servicer and as Commercial Special Servicer, and Fitch Ratings, Inc. has rated Wells Fargo "CMS1" as Commercial Master Servicer and "CSS2" as Commercial Special Servicer.

In addition, the transaction will include an Operating Advisor to advise and report to Bondholders.

Security for the Bonds

The Bonds will be secured by a pledge of the borrower's fee interest in the Project, which has an approximate appraised value of $1.1 billion based on the most recent appraisal, as well as all rental income and revenues derived from the Project and all interests in the Loan. Additionally, in the event of a shortfall in the debt service payment from the Borrower, Servicing Advances would provide security to Bondholders.

Risks and Risk Mitigation

A Bond default caused by the Borrower's failure to pay debt service and the absence of a third-party credit enhancement is the primary risk associated with this transaction. There is no financial risk to the Corporation associated with a Bond default; however, a default could diminish the Corporation's standing in the bond market at large. The Corporation believes the risk of default is mitigated by conservative underwriting, the provision for Servicing Advances and a grace period for a missed bond payment on the lowest class of Bonds.

An appraisal dated July 21, 2014 values the Project at $1.10 billion dollars. Based on this appraisal, the loan-to-value ratio for this transaction is 50%. The Project is expected to have a debt service coverage ratio of approximately 1.7 during the ten-year interest-only period.

The risk of a Bond default is also mitigated by the obligation of the Master Servicer (or the Trustee if the Master Servicer does not act) to make Servicing Advances to pay the debt service when there is a shortfall, except when it has reasonably determined that such advances would not be recoverable from subsequent payments or collections from the Borrower. Additionally, upon the happening of certain events, such as a default under the Loan Agreement, the Servicer may order a new appraisal. If the appraised value of the Project is decreased such that it reduces the amount of debt the Project can support, the Servicer has the power to correspondingly reduce the debt service on the Bonds.

Finally, to further reduce the risk of default, the Indenture will incorporate a grace period which provides that a failure to make full payment due on the lowest Bond Classes will not constitute an event of default on those bonds unless the amount owed remains unpaid after the passage of time. This regimen, which will apply to each monthly interest payment due, will result in grace periods for payment shortfalls on the lowest Bond Classes of at least six months and as many as twelve months depending on when the shortfall occurred. This will give the Corporation and the Servicer time to work out any underlying problems with the Borrower and the Loan prior to there being a default on such Bonds.

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 plus an up-front origination fee equal to 0.375% of the Loan amount (expected to be $2,062,500). The Corporation will use this fee to finance affordable housing units through its existing programs. In addition, the Borrower shall pay to the Corporation an annual servicing fee equal to 0.05% of the outstanding amount of Bonds.

Ratings

It is expected that the financing will be rated by Standard & Poor's Rating Service ("S&P") and by Fitch Ratings, Inc. ("Fitch") as follows:

Tax Status	Bond Class	Rating[1]	Rating Agency
Taxable	Class A	AAA	S&P/Fitch
Taxable	Class B	AA-	S&P
Taxable	Class C	A+	S&P
Liberty	Class D	A-	S&P
Liberty	Class E	BBB-	S&P
Liberty	Class F	BB-[2]	S&P
Liberty	Class G	B-[2]	S&P

[1] These ratings are based on preliminary feedback from the Rating Agencies and, along with the class sizes, are subject to change based on the Rating Agencies' criteria.

[2] The Class F and Class G Bonds may be unrated.

The Corporation anticipates the lowest-rated Bond Classes will be directly purchased by Bank of America Merrill Lynch, Citibank N.A. or an affiliate of either.

Indenture Trustee and Paying Agent

U.S. Bank National Association

Senior Managing Underwriter

Bank of America Merrill Lynch (book-running manager)
Barclays Capital Inc.
Citigroup Global Markets Inc.

Pricing Advisor

Caine Mitter & Associates Incorporated

Operating Advisor

Trimont Real Estate Advisors, Inc.

Bond Counsel

Hawkins Delafield & Wood LLP

Underwriter's Counsel

Orrick, Herrington & Sutcliffe LLP

Underwriter's CMBS Counsel

Cadwalader, Wickersham & Taft LLP

Action By Members

The Members are requested to approve an authorizing resolution which provides for (i) the execution of an Indenture of Trust, (ii) the execution of bond purchase agreement(s) with the Underwriter(s) of the Bonds or a direct purchaser of any or all of the Bonds, (iii) redemption of the Prior Bonds, (iv) the execution of the Servicing Agreement, (v) the distribution of preliminary and final Official Statements in connection with the financing of the Bonds, and (vi) the execution by an Authorized Officer of mortgage loan related documents and any other documents necessary to accomplish the issuance of the Bonds.