NYC HDC

NEW YORK CITY
HOUSING DEVELOPMENT
CORPORATION

MEMORANDUM

To: The Chairperson and Members

From: Gary Rodney
President

Date: September 15, 2016

Subject: Amendment and Restatement of Multi-Family Mortgage Revenue Bonds (Queens Family Courthouse Apartments) Bond Resolution, Issuance of Multi-Family Mortgage Revenue Bonds (Queens Family Courthouse Apartments), 2016 Series A and Direct Purchase of 2007 Series A and 2016 Series A Bonds

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I am pleased to recommend the Members approve the second amendment and restatement of the Multi-Family Mortgage Revenue Bonds (Queens Family Courthouse Apartments) Bond Resolution originally approved by the Members on June 13, 2007 (the "2007 Resolution" and, as amended and restated, the "Amended and Restated Bond Resolution") and the issuance of the Corporation's Multi-Family Mortgage Revenue Bonds (Queens Family Courthouse Apartments), 2016 Series A (the "2016 Bonds" and, together with the 2007 Bonds, the "Bonds") in an amount not expected to exceed $15,000,000 pursuant to the terms of the Amended and Restated Bond Resolution and a Supplemental Resolution Relating to Multi-Family Mortgage Revenue Bonds (Queens Family Courthouse Apartments), 2016 Series A (the "2016 Supplemental Resolution," and, together with the Amended and Restated Bond Resolution, the "Resolutions"). Interest on the 2007 Bonds is anticipated to be exempt from Federal, state and local income tax. Interest on the 2016 Bonds will not be exempt from federal income tax, but will be exempt from state and local income tax.

Background

Pursuant to the 2007 Resolution, the Corporation issued $120,000,000 in tax exempt bonds, which were used by QFC Owner, LLC (the "Borrower") for the purpose of acquiring and constructing a 277-unit multi-family rental housing and 69 unit cooperative development located at 89-14 Parsons Boulevard in Jamaica, Queens (the "Project") developed under the Corporation's Mixed Income Program. In connection with the Project and an associated cooperative ownership development, the Corporation also made two subordinate mortgage loans from its unrestricted reserves in the aggregate amounts of $10,790,000 and $4,485,000. In 2010, at the Borrower's request, the Corporation approved the integration of the cooperative development's 69 units into the rental development. The Corporation approved a restructuring into an all rental development in accordance with its Mixed Income Program guidelines at that time.

In 2012, the Members approved the amendment and restatement of the 2007 Resolution to authorize the restructuring of the financing (the "2012 Restructuring") to remarket $40,000,000 of the 2007 Bonds, redeem $78,170,000 of the 2007 Bonds and consolidate the Project's two subordinate loans into a single subordinate loan in the amount of $15,275,000 (the "Subordinate Loan") (See attached 2007 Memorandum and 2012 Memorandum).

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

Project Description

The Project consists of 346 residential rental units, 43,226 square feet of commercial space, 19,522 square feet of community facility space and a parking facility, located at 89-14 Parsons Boulevard in the Jamaica section of Queens. 165 of the units are available for occupancy by households whose incomes do not exceed 175% of Area Median Income ("AMI"), 59 of the units are available for occupancy by households whose incomes do not exceed 50% of AMI and 11 units are available for occupancy by households whose incomes do not exceed 40% of AMI. The remaining 110 units are market rate units. One unit is set aside for occupancy by the building superintendent.

Following initial occupancy, rents on the Project have been subject to Rent Stabilization. Pursuant to the terms of the regulatory agreement executed by the Corporation and the Borrower and the Affordable Owner (as defined below) at construction loan closing (the "HDC Regulatory Agreement"), the occupancy restrictions remain in effect for as long as the Bonds are outstanding and for a minimum of thirty (30) years from the date the Project is first occupied (the "Occupancy Restriction Period"). Both the low and middle-income tenants in occupancy at the expiration of the Occupancy Restriction Period will be protected by the terms of the HDC Regulatory Agreement, which mandates that the tenants be offered continuous lease renewals in accordance with Rent Stabilization. The Project's market rate units will also be subject to rent stabilization for as long as the Project receives real estate tax benefits pursuant to Section 421-a of the New York State Real Property Tax Law.

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

Borrower Description

The developer is The Dermot Company, Inc. ("Dermot"), the principals of which are Stephen Benjamin, Drew Spitler and Andrew Levinson. Dermot is a New York City-based real estate investment firm that owns and manages multifamily units across the US. In 2003, Dermot completed construction on Hudson Crossing, an HDC-financed taxable 80/20 project with 259 units in Midtown West. In 2004, Dermot opened The Opal, a 388 unit 80/20 rental project in Kew Gardens, Queens. Dermot is also the developer of 101 Avenue D Apartments, a project refinanced by the Corporation earlier this month.

The fee owners of the Project are the Borrower and QFC LI Owner, LLC (the "Affordable Owner"). The sole member of the Borrower is QFC Associates, LLC, whose managing member is Dermot QFC, LLC, and whose investor member is an entity owned by the AFL-CIO Building Investment Trust (the "BIT"). The owner of the low income units is the Affordable Owner, whose indirect manager is the Borrower and whose investor member is owned by Tandem CDE Inc., a wholly-owned subsidiary of Signature Bank and Richman U.S.A. 80-20 Tax Credit VI LLC, which is owned by Richard P. Richman and David A. Salzman.

Proposed 2016 Refinancing

The Corporation anticipates remarketing the 2007 Bonds and, pursuant to a Remarketing Purchase Agreement (the "Remarketing Purchase Agreement"), the 2007 Bonds will be directly purchased by Deutsche Bank AG, New York Branch ("Deutsche Bank"). In addition, the Corporation anticipates issuing $15,000,000 of the 2016 Bonds and, pursuant to a Bond Purchase Agreement (the "Bond Purchase Agreement"), the 2016 Bonds will also be directly purchased by Deutsche Bank. The Bonds will be secured by a Mortgage Purchase Agreement ("MPA") to be entered into by Deutsche Bank and the Corporation. The MPA will be for an initial term of 10 years and is described in further detail below. It is expected that at the end of the 10 year period the Borrower can request the bank to extend the term or alternatively, seek a long term credit enhancement satisfactory to the Corporation.

The Subordinate Loan requires payments based on an interest rate of 1% per annum with a 2.00% debt service constant resulting in monthly payments of $25,458.

The BIT initially contributed $58,193,009 in equity to the Project and made an additional contribution of $47,000,000 in connection with the 2012 Restructuring for a total equity investment of $105,193,009. It is anticipated that a portion of the proceeds of the 2016 Bonds will be used to reduce the BIT's aggregate equity position in the Project.

Structure for the Bonds

The 2007 Bonds currently bear interest at a rate equal to 100% of the most recent Securities Industry and Financial Markets Association ("SIFMA) Municipal Swap Index plus a spread of 1.75%. The remarketed tax-exempt 2007 Bonds will be remarketed as fixed rate obligations directly purchased by Deutsche Bank and will bear interest at a rate not expected to exceed 5.5%. The Bonds will have a final maturity of June 15, 2047.

The 2016 Bonds will be issued at a price of par as fixed rate obligations directly purchased by Deutsche Bank. The Members are asked to authorize a not-to-exceed true interest cost of 10% for fixed rate bonds; however, it is expected that the 2016 Bonds will have a true interest cost that does not exceed 6.7%. The Borrower will pay interest only on the senior loan for the 10-year term of the MPA.

In a separate transaction, the Borrower and Deutsche Bank are expected to enter into a total return swap pursuant to which Deutsche Bank, as swap provider, will pay the Borrower a fixed rate equal to the fixed rate on the Bonds and the Borrower, as swap counterparty, will pay Deutsche Bank a variable rate on a notional amount equal to the principal amount of the Bonds. The variable rate paid by the Borrower is expected to be equal to 3-month LIBOR plus 0.75% on the portion relating to the 2007 Bonds, which are tax-exempt, and be equal to 3-month LIBOR plus 1.75% on the portion relating to the 2016 Bonds, which are taxable. The swap transaction is scheduled to terminate ten years from the date of closing. Upon any termination of the swap transaction, the Borrower may owe a termination payment equal to the difference between the par amount of the Bonds and the market value of the Bonds on the date of termination. The Project has been conservatively underwritten to operate without reliance on Deutsche Bank's swap payments. However, it is expected that the difference between the fixed rate the Borrower will receive, which will equal the fixed rate on the Bonds, and the variable rate the Borrower owes on the swap will generate significant cashflow for the Project.

Security for the Bonds

During the initial period of 10 years, the 2007 Bonds and the 2016 Bonds will be secured by the MPA. If the Trustee has not received from the Borrower any amount due and owing under the note and mortgage or otherwise required by the Resolutions, then upon notice after an opportunity to cure any defaults, Deutsche Bank shall have (i) the option to pay such amount or (ii) the obligation to purchase the note and mortgage from the Corporation resulting in the redemption of the Bonds. Even if Deutsche Bank fails to pay the purchase price, the note and mortgage will be assigned to Deutsche Bank and the Bonds will be retired under the terms of the Resolutions.

Upon the expiration of the initial 10-year term, it is anticipated that the MPA will be extended or replaced with a credit facility for a term ending on June 15, 2047, or such shorter term as approved by the Corporation. The Resolutions will permit the provision of a credit facility or MPA, as long as the Corporation provides the Trustee certain items detailed in the Resolution including, but not limited to, (i) an opinion of bond counsel stating that the credit facility or MPA meets the requirements of the Resolutions and will not adversely affect the tax exemption relating to the Bonds and (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.

Under the terms of the Resolutions, 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.

The Resolutions will also allow Deutsche Bank to transfer the Bonds without Corporation approval to a bank concurrently providing credit enhancement for an HDC project, provided the bank is at least investment grade and assumes Deutsche Bank's obligations under the MPA.

Risks and Risk Mitigation

The primary risk associated with this bond issue is the absence of a traditional, long term credit facility. In the event the Borrower fails to make payments on the loan and the Project defaults, the Corporation will not have the ability to draw on a bank letter of credit to satisfy the corresponding debt obligations. However, the Bond Resolution and the MPA will mitigate this potential risk because, if Deutsche Bank fails to honor its obligation upon a default by the Borrower, the note and mortgage will be automatically assigned to Deutsche Bank and the Bonds will be retired.

In an effort to alleviate the exposure of the Corporation's subordinate debt to the availability of permanent credit enhancement on the Mortgage Loan, the Borrower will be required to make amortization payments on the Subordinate Loan as described above.

In the event Deutsche Bank were to experience severe financial difficulties, the Project has been underwritten without reliance on the swap payments from Deutsche Bank. In such an event, the Borrower could refinance the Project and seek out a new swap counterparty.

Fees

The Borrower will be obligated to pay the Corporation a remarketing and commitment fee equal to the sum of 0.25% of the 2007 Bonds and 1.00% of the 2016 Bonds. In addition, the Corporation will receive an annual servicing fee equal to 0.25% of the outstanding principal balance of the Bonds. The Borrower will also pay an amount equal to the Corporation's costs of issuance and remarketing.

Deutsche Bank will receive an origination fee equal to .50% of the Bonds.

Rating

The Bonds will be unrated during the term of the MPA.

Trustee and Tender Agent

U.S. Bank National Association

Pricing Advisor

Caine Mitter & Associates Inc.

Bond Counsel

Hawkins Delafield & Wood LLP

Action by the Members

The Members are requested to approve an authorizing resolution which provides for (i) the adoption of the Second Amended and Restated Bond Resolution, (ii) the adoption of the 2016 Supplemental Bond Resolution, (iii) the execution of the Remarketing Purchase Contract regarding the remarketing and direct placement of the 2007 Bonds, (iv) the execution of the Bond Purchase Agreement regarding the direct placement of the 2016 Bonds, (v) the execution of the Mortgage Purchase Agreement with respect to the Bonds and (vi) the execution of mortgage related documents and any other documents necessary to accomplish the remarketing and direct placement of the 2007 Bonds, the issuance and direct placement of the 2016 Bonds and the re-financing of the mortgage loan.

Exhibit A
Queens Family Courthouse/MODA
Queens, New York

Project Location:	89-14 Parsons Boulevard, Queens, NY Block 9755, Lots 31,59
Project Description:	A 12-story building with 346 residential units, 43,226 square feet of commercial space and one 19,700 square feet community facility.
Total Rental Units:	346 (plus one unit reserved for the superintendent)
Apartment Distribution:	see below

Unit Size	No. of Units
Studio	109
1 bedroom	167
2 bedroom	70
Total Units*	346

*Total Units are inclusive of one superintendent unit

Market Rate Units:	110
Middle-Income Units	165
Low-Income Units	70
Superintendent Unit:	1
HDC Estimated Tax-Exempt Bond Amount:	$40,000,000
HDC Estimated Taxable Bond Amount:	$15,000,000
HDC Subordinate Loan Amount:	$15,275,000
Bond Structure:	Direct purchase of fixed rate bonds by Deutsche Bank
Credit Enhancement:	Mortgage Purchase Agreement from Deutsche Bank
Owner:	QFC Owner, LLC; The Dermot Company (Stephen Benjamin, Drew Spitler, Andrew Levinson) and the AFL-CIO Building Investment Trust (BIT) QFC LI Owner, LLC; The Dermot Company, Signature Bank, Richman Affiliate
Underwriter/Remarketing Agent:	N/A