




MEMORANDUM

To: The Chairperson and Members

From: Gary Rodney 
President

Date: September 15, 2016

Subject: Approval of a Bridge Loan for Arker ENY Portfolio

I am pleased to recommend that the Members approve the origination of a 5-year, interest-only loan in an amount not to exceed \$14,300,000 (the "Bridge Loan") funded from the Corporation's reserves, to refinance a portfolio of six projects containing 437 units in the East New York neighborhood of Brooklyn (the "Portfolio") controlled by the principals of the Arker Companies (collectively, the "Owner" or the "Borrower").

The Borrower will use the proceeds of the Bridge Loan to retire the existing debt on the Portfolio and to reimburse itself for the costs of purchasing the limited partnership interests of the Portfolio's ownership entities. As a condition of making the Bridge Loan, HDC will require the Borrower to negotiate in good faith with HDC for the future refinancing of the Portfolio after the expiration of the latest tax credit compliance period, which is December 31, 2018. At that time, the Borrower expects to recapitalize the Portfolio through a post-Year 15 re-syndication utilizing tax exempt bonds and concomitant low income housing tax credits ("LIHTC"). HDC will explore alternative recapitalization strategies with the Owner as well. For example, originating a mortgage loan and selling it to the Federal Financing Bank or to the New York City Retirement Systems through the Office of the Comptroller's Public Private Apartment Rehabilitation (PPAR) Program present potentially advantageous alternate executions.

Currently, all of the loans securing the Portfolio have passed their prepayment lockout periods and may be prepaid at will. Prepayment of the remaining loans is inevitable and imminent due to significantly lower interest rates and current market conditions. HDC staff believes that offering the Bridge Loan and requiring the Owners of the Portfolio to return to HDC for any future financing provides the best opportunity to preserve the long-term affordability of these developments.

The Corporation will not be committing to finance any future recapitalization, nor will it reserve the volume cap required in case the future financing will be funded with tax-exempt bonds. The Corporation will commit to fund any post-Year 15 recapitalization only after such future transaction has been fully underwritten, approved by the Corporation's credit committee, and approved by the Members.

Below is a description of the Portfolio as well as the proposed uses, structure, security, and other relevant terms of the Bridge Loan.

History and Current Status of the Portfolio

The Portfolio is currently owned by six different limited partnerships controlled by the principals of the Arker Companies—Sol Arker, Allan Arker, Alex Arker and Daniel Moritz (collectively, the “Arkers”). The Arkers have developed over 50 affordable housing projects in partnership with HDC and HPD, and currently they own a management company that manages over 5,000 income-restricted units (mostly in New York City).

All but one of the buildings in the Portfolio were constructed in the late 1990’s and early 2000’s. The last building, 710 Dumont Avenue, was a public school constructed in the early 1930’s and converted to residential use in 1999. The construction costs relating to the development of the Portfolio was originally financed as six separate projects using LIHTC equity, HDC bonds secured by direct-pay letters of credit, and the city’s 421-a Negotiable Certificate Program. Currently, two of the projects have outstanding permanent loans with HDC, one project has an HDC permanent loan that has already been fully repaid, and three projects have outstanding loans held by Freddie Mac. All of the units are subject to the LIHTC extended use affordability requirements and are rented to households earning no more than 60% of the Area Median Income upon initial occupancy.

Two of the original projects have already passed their 15-year tax credit compliance periods. Three of the original projects’ tax credit compliance periods will expire on December 31, 2016. And the final project’s tax credit compliance period will expire on December 31, 2018.

Structure and Security

The Bridge Loan will be structured as a senior mortgage loan secured by the fee simple interests in all of the projects. Although the projects are expected to be conveyed to a new single-purpose entity at the time of the refinancing, for the current transaction, all six of the borrowers will sign the Note and Mortgage as co-mortgagors. The Bridge Loan will be originated with a 5-year term, will have a market interest rate that is expected to be 3.05%, and it will be interest-only. Although the term will be 5 years, the Bridge Loan is expected to be repaid at the time of the refinancing, which is expected to be in late 2018. The Bridge Loan is not expected to have mortgage insurance.

Proposed Uses for the Bridge Loan

A majority of the Bridge Loan will be used to pay down the current loans secured by the projects, which as of September 30, 2016 will have a combined outstanding balance of approximately \$7,623,370 and interest rates ranging from 6.00% to 8.02% per annum.

Another portion of the Bridge Loan, in an expected amount of \$4,725,000, will be used to reimburse the current owners for the purchases of all of the interests owned by the existing limited partners of the six partnerships. Prior to closing the Bridge Loan, all of the interests in all six of the ownership entities will be wholly controlled by the Arkers. As of the date of this memorandum, the Arkers are in the final stages of negotiating the purchase of the limited

partnership interests in three of the partnerships, all of which are owned by John Hancock Corporate Tax Credit Fund VI.

The remainder of the Bridge Loan, along with existing reserves in the approximate amount of \$538,716, will be used to replenish the replacement reserve and pay for soft costs incurred in this transaction.

For more information on the project, please see Attachment A-1.

The Regulatory Agreements

Currently, each of the six developments is covered by a separate regulatory agreement. In connection with the Bridge Loan, the Corporation will not alter or modify these agreements. At the time of the future refinancing, one new regulatory agreement will be recorded against all of the premises, such agreement is expected to extend the occupancy restriction period to at least thirty years from that date, and it will provide for the typical provisions of such agreements with the Corporation.

Risks and Risk Mitigation

The primary risk associated with the Bridge Loan is a payment default by the Borrower. The Corporation's staff believes that this risk is mitigated by strict underwriting, the Borrower's history in operating and managing the Portfolio, the low loan-to-value ratio, and the Corporation's ongoing asset management and monitoring of the Portfolio. Recapitalizing the Portfolio's reserves for future capital needs is further mitigation against the repayment risk.

A secondary risk is that the Borrower will not refinance with the Corporation after this short-term Bridge Loan matures. Because of the Corporation's history with the Arkers, having financed the development of 34 projects with them in the past, as well as the requirement in the Corporation's commitment that the Borrower return to HDC and negotiate in good faith for a future recapitalization, staff is confident that the Borrower is committed to preserving the long-term affordability of these units. This commitment is further evidenced by the fact that the Owners are seeking the Bridge Loan, the terms of which are competitive with loans available in the private market place, from the Corporation instead of from a private bank. The Bridge Loan is designed to ensure that the Corporation has an ongoing stake in this Portfolio beyond simply monitoring regulatory compliance through the extended use period.

Deposits and Fees

The Borrower will pay a commitment fee in the amount of 0.75% of the amount of the Bridge Loan. The Borrowers will also be responsible for paying any amounts that are required to compensate the Corporation for costs incurred in connection with the redemption of the existing bonds, if any.

The Corporation will also charge the Borrower an annual servicing fee of 0.20% on the outstanding principal balance of the senior mortgage loan or other applicable fees, which is included in the interest rate.

Action by the Members

The Members are being requested to approve (i) the making of a loan in an aggregate amount not to exceed \$14,300,000 from the Corporation's reserves for a short-term loan to refinance the 437-unit Portfolio described herein 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-1"

Arker East New York Portfolio

Project Locations: 710 Dumont Avenue
549 Vermont Street
510 Wyona Street
1426 Loring Avenue
646 Emerald Street
458/472 Ruby Street
922 Forbell Street
1101 Forbell Street
Brooklyn, NY

HDC Program: Bridge Loan (Originally LAMP-LITE)

Project Description: The portfolio consists of eight buildings owned by six limited partnerships totaling 390,000 square feet containing 437 units and 181 parking spaces. The projects are located in the East New York section of Brooklyn. 100% of the units are rented to households earning no more than 60% AMI.

Total Rental Units: 437 (including four superintendents' units)

Apartment Distribution:

<u>Unit Size</u>	<u>No. of Units</u>
0 bedroom	58
1 bedroom	92
2 bedroom	281
<u>3 bedroom</u>	<u>6</u>
Total Units*	437

* Total Units are inclusive of four supers' unit

Expected HDC Bridge Loan Amount: \$13,000,000

Expected HDC Second Mortgage: N/A

Total Project Cost: \$13,528,558

Owners: Emerald Green Limited Partnership, Emerald Green Phase II Limited Partnership, Grant Forbell Limited Partnership, Ruby Dumont Limited Partnership, Vermont Limited Partnership and Wyona Limited Partnership, each of which is a single-asset limited partnership whose general partner is controlled by the principals of the Developer.

Developer: The Arker Companies
Principals: Sol Arker, Allan Arker, Alex Arker, Daniel Moritz

Investor Limited Partner(s): N/A

Credit Enhancer(s): N/A