MEMORANDUM

To: The Chairperson and Members

From: Gary Rodney
President

Date: September 30, 2015

Re: Allocation of Corporate Reserves to Fund HPD Energy Efficiency Initiatives

I am pleased to recommend that the Members approve the Corporation’s use of unrestricted corporate reserves for the purpose of participating in a funding swap with the New York City Department of Housing Preservation and Development ("HPD") relating to two initiatives to improve energy and water efficiency in affordable housing financed by the City in an amount not expected to exceed $25,000,000.

Background

HPD has recently introduced two new green initiatives to promote energy efficiency and water conservation measures in affordable housing financed by the City, a key priority of the Mayor’s affordable housing agenda. First, the City is requiring buildings that are undergoing moderate rehabilitation through HPD preservation finance programs to integrate cost-effective energy efficiency and water conservation improvements into the scope of work (the “Green Rehabilitation Projects”). Second, HPD launched the Green Housing Preservation Program ("GHPP", and together with the Green Rehabilitation Projects, the “Green Initiatives”) in May 2015 to assist small- and mid-size building owners in undertaking energy efficiency and water conservation improvements. Some of the energy efficiency and water conservation measures included in the Green Initiatives are replacing water fixtures, improving insulation on hot water pipes, upgrading lighting fixtures and replacing air conditioners.

In order to facilitate the implementation of the Green Initiatives and due to funding restrictions for New York City, HPD is requesting that the Corporation finance the Green Initiatives Loans pursuant to a swap described herein. The Members authorized a similar funding swap for the the HPD Tax Credit Loan and Reserve Funding Program on August 12, 2009.

Proposed Uses

The Corporation will finance these two initiatives pursuant to an interagency Memorandum of Understanding ("MOU") with HPD. The MOU will provide that the Corporation establish a dedicated account ("Dedicated Account") totaling $25,000,000 from unrestricted corporate
reserves to be used to fund loans through the Green Initiatives (the “Green Initiatives Loans”). The funding amount is sized based on HPD’s estimated pipeline for New York City Fiscal Year 2016, but the Corporation will remain contractually obligated to HPD to use the funds for the Green Initiatives even if not all of it is expended during the City’s Fiscal Year 2016. HPD and the Corporation are expected to execute a control agreement indicating that funds will be redirected towards other standard HPD programs that meet all of the Corporation’s statutory authority to the extent that the Green Initiatives are unsuccessful or loans do not close within a to-be-determined window.

Loans originated pursuant to the Green Initiatives will be subject to HPD program terms. HPD will underwrite and close each Green Initiatives transaction, with a form notification to the Corporation to release the funds at closing. Green Initiatives Loans will be made in the Corporation’s name and will be assigned to HPD at construction completion. All investment earnings and debt service payments on the Green Initiative Loans, minus the servicing fees, will go back to the Dedicated Account prior to construction completion, and will be paid to HPD once the loan has converted to permanent status. HPD or a participating senior lender will be responsible for compliance and construction monitoring on the Green Initiatives Loans.

In exchange for the Corporation financing the Green Initiatives Loans, HPD will lend City Capital funds as a subsidy loan to one or more new construction projects financed by the Corporation (“HDC Project Loan”) (currently anticipated to be a project named Jamaica Crossing that is anticipated to be financed by calendar year-end and that will be separately reviewed by the Members prior to such time), in an amount equal to the Corporation’s allocation to the Dedicated Account. HPD’s financing of the HDC Project loan will be in lieu of the Corporation using its own unrestricted reserves for such loan pursuant to HDC’s programs and term sheets. The HDC Project Loan will be made in the Corporation’s name and funded with HPD funds pursuant to a construction loan participation agreement. HPD’s participation in the HDC Project Loan will terminate at the conversion of the loan to the permanent phase.

The construction interest from the City Capital-funded HDC Project Loan will be capitalized. Construction interest will be paid and held in a revenue account to be paid to the Corporation at conversion when HPD’s participation interest in the HDC Project Loan will terminate. It is expected that a letter of credit bank will service the HDC Project Loan during construction but at conversion the Corporation will service the loan.

Members will be asked to approve the Jamaica Crossing loan or another eligible HDC Project Loan at a future date.

Risks and Risk Mitigation

All repayment risk associated with Green Initiatives Loans made through the Dedicated Account will be HPD’s risk. Also, any cost or expenses incurred by the Corporation for bank fees and investment breakage fees in connection with the performance of its duties shall be paid by HPD from the Dedicated Account. If funds in the Dedicated Account are insufficient to fund a transfer request and related bank or investment breakage fees, the Corporation will not transfer
the funds and will inform HPD.

In the event that any borrower, contractor or other party involved in loans made through the Green Initiatives sues the Corporation, HPD will undertake to use its best efforts to have the City represent the Corporation.

Further, HPD’s participation in the HDC Project Loan will terminate at the related project’s conversion to a permanent loan. Upon conversion the Corporation will be the sole lender on such loan.

**Fees**

For Green Initiative Loans serviced by the Corporation, the Corporation will charge a servicing fee equal to .25% per annum. In the event debt service is not paid on the Green Initiatives Loans, the Corporation will deduct an annual servicing fee from the Dedicated Account equal to (.25%) per annum. In cases where there is a participating lender who will be doing construction servicing, the Corporation will advance the entire loan to the servicer at closing, and that lender will perform all servicing functions and the Corporation will not charge a construction servicing fee. The Corporation expects to service the permanent HDC Project Loans.

**Action by the Members**

The Members are requested to authorize the staff to commit up to $25,000,000 of the Corporation’s unrestricted reserves to fund the Dedicated Account and the making of the related Green Initiative Loans.