NYC HDC

NEW YORK CITY
HOUSING DEVELOPMENT
CORPORATION

MEMORANDUM

To: The Chairperson and Members

From: Eric Enderlin
President

Date: November 17, 2017

Subject: Multi-Family Mortgage Revenue Debt Obligations (1133 Manhattan Avenue)

I am pleased to recommend that the Members authorize the refinancing of a 210-unit multi-family rental housing development located at 1133 Manhattan Avenue in Brooklyn (the "Project") using a new structure with Federal Home Loan Mortgage Corporation ("Freddie Mac") based on the Freddie Mac Tax Exempt Loan ("TEL") structure. The Project was originally financed with the Corporation's Multi-Family Rental Housing Revenue Bonds (1133 Manhattan Avenue Development), 2012 Series A (the "Prior Bonds") and a subordinate mortgage loan from the Corporation (the "Prior Subordinate Loan") in December 2012.

The Members are requested to authorize the Corporation to enter into a loan agreement (the "Funding Loan Agreement") with Freddie Mac and to issue two or more of the Corporation's Multi-Family Mortgage Revenue Debt Obligations (1133 Manhattan Avenue Development) in a combined amount not to exceed $67,320,000 (individually, the "Tax-Exempt Obligations" and the "Taxable Obligations," and together, the "Obligations") evidencing the Corporation's obligation under the Funding Loan Agreement to make payments due on one or more loans (the "Funding Loan"), the proceeds of which will be used by the Corporation to finance a mortgage loan (the "Senior Loan") to 1133 Manhattan Avenue LLC (the "Borrower"). The Members are also requested to authorize the making of a subordinate mortgage loan to the Borrower from unrestricted reserves in an amount not to exceed $7,480,000 (the "Subordinate Loan," and together with the Senior Loan, the "Borrower Loans"). The Borrower Loan structure will be predicated on the Corporation taking a 10% top loss position to mitigate Freddie Mac's credit risk. The proceeds of the Borrower Loans will be used to refund the Prior Bonds in the outstanding principal amount of $45,600,000, prepay the Prior Subordinate Loan, provide an equity take-out to the Borrower and pay certain costs related to the refinancing.

Interest on the Tax-Exempt Obligations is anticipated to be exempt from Federal, state and local income tax and such obligations will qualify as tax-exempt private activity bonds by refunding the Prior Bonds and potentially also through an allocation of "recycled" volume cap in accordance with the Housing and Economic Recovery Act of 2008 ("HERA"). Interest on the Taxable Obligations will not be exempt from Federal income tax, but is anticipated to be exempt from state and local income tax.

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

Project Description

The Project consists of a building located at 1133 Manhattan Avenue between Box Street and Clay Street in the Greenpoint section of Brooklyn. The Project contains 210 rental units (1 studio unit, 93 one-bedroom units, and 116 two-bedroom units) originally financed in 2012 under the Corporation's Mixed Income Program. Forty-four (44) of the units (20% of the project) are reserved for tenants earning no more than 50% of Area Median Income ("AMI"). Of those forty-four (44) units, seven (7) are reserved for tenants earning no more than 40% of AMI. Sixty-one (61) units (30% of the Project), are reserved for tenants earning approximately 130% to 175% of AMI in accordance with the Corporation's Middle Income Program AMI limits and marketing guidelines. The remaining one hundred and five (105) units do not have income restrictions and are rented at market rents. The Project also contains 8,066 square feet of commercial space and 123 parking spaces. In addition, the Borrower has designated forty-four (44) low-income units as inclusionary "Affordable Housing Units" in order to generate forty-four (44) additional units in additional density through the New York City Department of Housing Preservation and Development's Inclusionary Housing program.

Rents on the Project are subject to Rent Stabilization. Pursuant to the terms of the regulatory agreement executed by the Corporation and the Borrower (the "HDC Regulatory Agreement"), the occupancy restrictions will remain in effect for as long as tax-exempt obligations are outstanding and for a minimum of 35 years from the conversion of the construction loan to a permanent loan, which occurred in December 2015 (the "Occupancy Restriction Period"). Both the low and middle-income tenants in occupancy at the expiration of the Occupancy Restriction Period are to 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.

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

Developer, Borrower & Mortgagor Description

The developer is The Domain Companies, LLC. Domain's principals are Chris Papamichael and Matthew Schwartz. Founded in 2003, Domain owns and manages more than 2,600 multi-family units in New York and Louisiana, including 1,136 units in New York City. This is Domain's third project with financing from the Corporation.

The Borrower of the Project will continue to be 1133 Manhattan Avenue LLC. The sole member of the Borrower will be 1133 Manhattan Avenue GP LLC, which will be comprised of Domain 1133 LLC as managing member and Peter Papamichael as an investor member. The sole member and manager of Domain 1133 LLC is The Domain Companies LLC, of which Matthew Schwartz is a 47.5% member, Chris Papamichael is a 47.5% member, Vincent Keeler is a 2.5% Member and Aaron Amitin is a 2.5% Member.

In order to facilitate an equity investment in connection with the federal low income housing tax credits generated by the Project, the Borrower has leased the low income units to the low-income housing tax credit investor entity. The master tenant for the low-income portion of the Project is 1133 Manhattan Avenue Master Tenant LLC. 1133 Manhattan Avenue LIHTC, LLC is the 99.99% investor member of the master tenant and Goldman Sachs Bank USA is its sole member. 1133 Manhattan Avenue GP LLC will be the 0.01% managing member of the master tenant controlled by The Domain Companies, LLC.

The Borrower entered into a 99-year ground lease with the owner of the site, which was amended and restated prior to the construction loan closing.

The Funding Loan Agreement, Security for the Obligations and Borrower Loans

The Corporation expects to enter into a fixed-rate, pass-through Funding Loan Agreement, as evidenced by the Obligations, the proceeds of which will be used by the Corporation for the purpose of providing funds to finance the Senior Loan. The Corporation will enter into the Funding Loan Agreement initially with Jones Lang LaSalle ("JLL") as initial funding lender, whose interest will be immediately transferred to Freddie Mac.

The Members are asked to authorize a not-to-exceed interest rate of 10% for the fixed-rate Obligations; however, the Senior Loan and related Obligations are expected to bear interest at a fixed rate of approximately 3.98%. The approximate maturity date for the Senior Loan and the related Obligations is January 1, 2028. The Senior Loan and related Obligations will require interest only to be paid for the first three years of the ten-year term, followed by interest and principal payments for the remaining seven years, with the principal payment calculated based on a 35-year amortization schedule. The Senior Loan will have a balloon payment expected to be approximately $55,000,000 due at maturity. It is anticipated the Senior Loan will be serviced by JLL, the current servicer of the 1133 Manhattan Avenue Project.

The Senior Loan will be secured by a credit enhancement facility in the form of a stand-by Credit Enhancement Agreement (the "Credit Facility") executed and delivered by Freddie Mac to the Fiscal Agent concurrently with the issuance of the Obligations. The Fiscal Agent will draw upon the Credit Facility in the event of a Borrower payment default to make regularly scheduled payments due on the Obligations. The approximate term of the Credit Facility is ten years and it will remain in effect for as long as the Senior Loan is outstanding.

Freddie Mac expects to be reimbursed for any draws on the Credit Facility from payments made by the Borrower pursuant to a reimbursement agreement between Freddie Mac and the Borrower (the "Reimbursement Agreement"). The obligations of the Borrower will be evidenced by one or more leasehold mortgages and notes, which, with respect to the Senior Loan, will be assigned to Freddie Mac and the Fiscal Agent, as their interests may appear.

In addition, the Members are asked to authorize the use of unrestricted Corporate Reserves to make the Subordinate Loan in an amount not to exceed $7,480,000 or 10% of the Borrower Loans. The Subordinate Loan will not be credit enhanced and will require interest only to be paid at an expected interest rate of 7.5% during its ten-year term with the entire principal amount due at maturity. The Corporation will enter into a subordination agreement with Freddie Mac in which it will agree to a standstill from enforcing remedies in the event of default on the Subordinate Loan. The Subordinate Loan will not be prepayable until the Senior Loan has been paid in full. This structure effectively converts the 1% Prior Subordinate Loan to a first loss loan or investment at a higher interest rate reflecting its risk position, which permits the Corporation to realize a higher risk adjusted return. Under the prior financing the Corporation had a similar risk but was not getting a higher return because of the broader policy goals of supporting the construction of affordable housing. Due to the success of the Project the Corporation can benefit from a higher rate of return on a similar loan amount without increasing the Corporation's risk exposure or adversely impacting the Project's affordability.

Risks and Risk Mitigation

The primary risk associated with the Funding Loan is the potential failure of the Borrower to make payments due under the Senior Loan, which are necessary for the Corporation to make payments to Freddie Mac under the Funding Loan. However, Corporation staff believes that this risk is mitigated by the presence of the Freddie Mac standby Credit Facility securing the Senior Loan. A related risk is the potential failure of Freddie Mac to honor its obligations under the Credit Facility, which would be a default under the transaction documents. The Corporation's staff believes that a default by a highly rated financial institution is an unlikely scenario. Freddie Mac is currently rated AA+/A-1+ by Standard & Poor's and Aaa/P-1 by Moody's Investors Service. As a result, the Corporation believes that the financing is structured to effectively insulate the Corporation from credit, market and real estate risks.

The primary risk associated with the Subordinate Loan is the potential failure of the Project to produce enough cash flow to fully support interest payments. The Project has maintained stable operations since conversion in December 2015 and is projected to produce enough cash flow to fully support interest payments until the Subordinate Loan maturity. The Funding Loan and Subordinate Loan are collectively sized by Freddie Mac based on a 1.15 debt service coverage ratio and a 75% loan-to-value ratio, which meets the coverage ratio required by the Corporation for similar transactions. Additionally, the Borrower and managing agent are in good standing with the Corporation's Asset Management department.

Fees

The Borrower will be obligated to pay the Corporation a refinancing fee equal to approximately .25% of the $45,600,000 of Obligations that will be used to refund the Prior Bonds plus a Commitment Fee equal to 1.00% of the newly originated Obligations. In addition, the Corporation will receive an annual administrative and servicing fee, expected to equal approximately 0.10% of the outstanding amount of the Senior and Subordinate Loans (the "HDC Servicing Fee") until the Borrower Loans mature.

Freddie Mac will receive an application fee equal to .10% of the Borrower Loans, as well as a Commitment Fee equal to approximately .50% of the Borrower Loans.

JLL will receive an annual administrative and servicing fee that is expected to equal approximately 0.08% of the Senior Loan.

Fiscal Agent

[TBD]

Bond Counsel

Hawkins Delafield & Wood LLP

Action by the Members

The Members are requested to approve an authorizing resolution which provides for (i) the execution of the Funding Loan Agreement, (ii) the refunding of the Prior Bonds, and (iii) the execution of mortgage-related documents and any other documents necessary to accomplish the issuance of the Obligations and the financing of the related loans.

In addition, the Members are requested to approve the making of a subordinate loan to be funded by unrestricted reserves in an amount not to exceed $7,480,000, and the execution by an Authorized Officer of the Corporation of mortgage-related documents and any other documents necessary to accomplish the subordinate financing.

"Exhibit A"
1133 Manhattan Avenue
Brooklyn, New York

Project Location:	1133 Manhattan Avenue, Brooklyn, NY Block 2482, Lot 26 and part of Lot 21
Project Description:	One 7-story building with two towers, 210 mixed-income residential units and approximately 8,066 square feet of retail/commercial space.
Total Rental Units:	209 (plus one unit reserved for the superintendent)
Apartment Distribution:	

Unit Size	No. of Units
Studios	1
1 bedroom	93
2 bedroom	116
Total Units	210*

* Total Units are inclusive of one superintendent unit

Market Rate Units:	105
Middle-Income Units (rents set at 30% of 130% of AMI):	61
Low-Income Units (rents set at 30% of 50% of median income):	37
Very Low-Income Units (rents set at 30% of 40% of median income):	7
HDC Estimated Tax-Exempt Debt Obligation Amount:	$45,600,000
HDC Estimated Taxable Debt Obligation Amount:	$15,600,000
HDC Estimated Subordinate Loan Amount:	$6,800,000
Credit Enhancement:	Freddie Mac Standby Credit Enhancement
Owner:	1133 Manhattan Avenue LLC, a New York limited liability company, whose principals are Matthew Schwartz and Chris Papamichael of The Domain Companies LLC.