NYC HDC

NEW YORK CITY
HOUSING DEVELOPMENT
CORPORATION

MEMORANDUM

To: The Chairperson and Members

From: Marc Jahr
President

Date: November 30, 2012

Subject: Multi-Family Rental Housing Revenue Bonds (1133 Manhattan Avenue Development), 2012 Series A and 2013 Series A

I am pleased to recommend that the Members approve the issuance of the Corporation's Multi-Family Rental Housing Revenue Bonds (1133 Manhattan Avenue Development), 2012 Series A and 2013 Series A (the "2012 Bonds" and the "2013 Bonds," respectively, and collectively, the "Bonds") in an amount not to exceed $50,000,000. Interest on the Bonds is anticipated to be exempt from Federal, state and local income tax. Up to $38,000,000 of the Bonds will be subject to the private activity bond volume cap, with the balance to be recycled tax-exempt bonds which are not subject to the private activity bond volume cap.

The proceeds of the Bonds will be used to make a loan (the "Loan") to 1133 Manhattan Avenue, LLC (the "Borrower" and "Mortgagor"), a New York limited liability company for the purpose of paying a portion of the costs of constructing and equipping a 210-unit multi-family rental housing development to be located at 1133 Manhattan Avenue in Brooklyn (the "Project"). The Project will be developed under the Corporation's Mixed Income Program. The managers of 1133 Manhattan Avenue, LLC are described below and are controlled by members Matthew Schwartz and Chris Papamichael of The Domain Companies.

The Bonds will be issued as variable rate obligations in the weekly mode and will be sold by the Corporation to Goldman Sachs & Co., as underwriter ("Goldman") and will be secured by a direct-pay credit facility to be provided by the Federal Home Loan Mortgage Corporation ("Freddie Mac").

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

Project Description

The Project consists of the new construction of one seven-story building with two towers to be located at 1133 Manhattan Avenue between Box Street and Clay Street in the Greenpoint section of Brooklyn. The Project will contain 210 rental units (1 studio unit, 93 one-bedroom units, and 116 two-bedroom units) financed under the Corporation's Mixed Income Program. Forty-four (44) of the units (20% of the project) will be reserved for tenants earning no more than 50% of Area Median Income ("AMI") which is currently \$41,500 for a family of four. Of those forty-four (44) units, seven (7) will be reserved for tenants earning no more than 40% of AMI, which is currently \$33,200 for a family of four. Sixty-one (61) units (30% of the Project), will be 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 will not have income restrictions and will be rented at market rents. The Project is also expected to contain 8,066 square feet of commercial space and 123 parking spaces. The Borrower will designate forty-four (44) low-income units as inclusionary "Affordable Housing Units" in order to generate forty-four (44) additional units in zoning authority through the New York City Department of Housing Preservation and Development's Inclusionary Housing program.

Following initial occupancy, rents on the Project will be subject to Rent Stabilization. Pursuant to the terms of the regulatory agreement to be executed by the Corporation and the Mortgagor (the "HDC Regulatory Agreement"), the occupancy restrictions will 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 will receive an additional loan from the Corporation's unrestricted reserves (the "Subordinate Loan") in the amount of \$6,825,000 or \$65,000 per unit for the 105 low- and middle-income units in the Project in accordance with the Mixed Income Program guidelines. The Subordinate Loan will not be credit enhanced and will bear interest at a rate of 1%, with scheduled amortization based on a 2% constant payment beginning at the earlier of 36-months after construction loan closing or conversion to permanent financing.

The Project will also receive a bridge loan from Goldman Sachs Bank USA ("Goldman Sachs Bank") in an amount up to \$4,000,000 during construction. This loan will be subordinate to both loans of the Corporation and will be repaid with interest from a combination of Project cash flow and the proceeds of Brownfield Redevelopment Tax Credits at conversion. Finally, the Project will also benefit from approximately \$2,934,000 in tax credit equity generated by the syndication of Low Income Housing Tax Credits.

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

Developer, Borrower & Mortgagor Description

The developer will be The Domain Companies, LLC. Domain's principals are Chris Papamichael and Matthew Schwartz. Founded in 2003, Domain owns and manages more than 1,564 multi-family units in New York and Louisiana, including 821 units in New York City. This is Domain's third project with financing from the Corporation.

At construction loan closing, the Borrower of the Project will 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 50% member and Chris Papamichael is a 50% member.

In order to facilitate an equity investment in connection with the federal low income housing tax credits generated by the Project, the Borrower will lease the low income units to the low-income housing tax credit investor entity. The master tenant for the low-income portion of the Project will be 1133 Manhattan Avenue Master Tenant LLC. 1133 Manhattan Avenue LIHTC, LLC will be the 99.99% investor member of the master tenant and Goldman Sachs Bank USA will be 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 Mortgagor has entered into a 99-year ground lease with the owner of the site, which will be amended and restated at or prior to the construction loan closing.

Structure of the Bonds

The Bonds will initially be issued as seven-day variable-rate obligations with an approximate final maturity of June 1, 2046. The Bonds will be sold by the Corporation to Goldman pursuant to a Bond Purchase Agreement with respect to the 2012 Bonds and a Forward Bond Purchase Agreement with respect to the 2013 Bonds. The interest rate on the Bonds will be reset weekly (the "Weekly Rate") by Goldman in its capacity as remarketing agent ("Remarketing Agent"). On the basis of the prevailing financial market conditions, Goldman will establish the Weekly Rate at the minimum interest rate that it determines will be necessary to market the Bonds at par. Similar to other multi-modal transactions undertaken by the Corporation, the Bond Resolution and other agreements to be entered into in connection with the financing provide that the Bonds may be converted to (i) a Term Rate (with a semi-annual term or any multiples thereof) or (ii) a Fixed Rate, at the option of the Mortgagor with the approval of the credit enhancer and the Corporation pursuant to the terms of the resolution for the Bonds (the "Bond Resolution"). The Bonds will be subject to a maximum interest rate of 12% per annum in any of the above interest rate modes, although the maximum rate may be increased to 15% in accordance with the provisions of the Bond Resolution.

The Borrower will make principal payments to a principal reserve fund ("PRF") starting after the conversion of the Loan to the permanent phase, and such amounts will be used to amortize the Loan. Redemption of the Bonds will occur on an annual schedule in increments of $100,000 at the request of Freddie Mac and the Borrower. The PRF shall be held by the Trustee pursuant to the terms of the Bond Resolution while the Bonds are outstanding.

<u>Security for the Bonds and Security for Freddie Mac</u>

The Bonds will be secured by a credit enhancement facility in the form of a direct-pay Credit Enhancement Agreement (the "Credit Facility") executed and delivered by Freddie Mac to the Trustee concurrently with the issuance of the Bonds. The Trustee will draw upon the Credit Facility to make all regularly scheduled payments due on the Bonds. The Credit Facility may also be drawn upon in the event the Bonds are not successfully remarketed by the Remarketing Agent.

The approximate term of the Credit Facility is thirty-four years and it will remain in effect for as long as the Bonds are outstanding. Freddie Mac will provide credit enhancement and liquidity for the Bonds, however, the liquidity component of the Credit Facility will be for an initial term of five years with an option to extend at the end of the five-year term. Under the terms of the Credit Facility, the Mortgagor will be required to purchase a five-year interest rate cap at conversion to the permanent phase at a maximum strike rate of 5.00%. The cap will mitigate the risk of an increase in the variable rate above 5% during the term of the cap. Freddie Mac will require the Mortgagor to escrow funds to pay for any subsequent five-year interest rate cap.

Freddie Mac expects to be reimbursed for draws on the Credit Facility from payments made by the Mortgagor pursuant to a reimbursement agreement between Freddie Mac and the Mortgagor (the "Reimbursement Agreement"). The obligations of the Mortgagor will be evidenced by one or more leasehold mortgages and notes, which, with respect to any bond-financed mortgage loan, will be assigned to Freddie Mac and the Trustee, as their interests may appear, at the construction loan closing.

During the construction and rent-up periods, Freddie Mac may draw on a letter of credit provided by Goldman Sachs Bank in favor of Freddie Mac (the "LOC") to reimburse itself for payments it makes on the Bonds if the Mortgagor fails to reimburse Freddie Mac. The obligations of the Mortgagor to reimburse Goldman Sachs Bank in the event of a draw will be secured by a pledge of the interests of certain members of the Mortgagor. In the event the Mortgagor fails to fulfill its obligations pursuant to the Reimbursement Agreement, Freddie Mac may draw upon the LOC, require the Bonds to be tendered, use such proceeds to pay the Bondholders, and thereafter no longer credit enhance the Bonds. Under such circumstance, Goldman Sachs Bank may request that it be permitted to credit enhance the tendered Bonds with a direct pay letter of credit. In the event such a scenario were to occur, the Members would be asked to approve any proposed restructuring of the Bonds at that time.

The Bond Resolution permits the provision of alternate forms of credit enhancement provided that the Corporation provides the Trustee certain items detailed in the Bond Resolution including, but not limited to, (i) an opinion of bond counsel stating that the alternate form of credit enhancement meets the requirements of the Bond Resolution and will not adversely affect the tax exemption relating to such bonds, and (ii) a letter from the nationally recognized rating agency or agencies then rating the Bonds to the effect that such alternate form of credit enhancement will provide the Bonds with an investment grade rating. The Mortgagor must pay all costs incurred by the Trustee and the Corporation in connection with the provision of an alternate form of credit enhancement.

Under the terms of the Bond Resolution, 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.

Goldman Sachs Bank will also service the Loan during the construction term and will pass through all payments due during construction to Freddie Mac. Once the Project is successfully built and rented as contemplated, and reaches certain financial targets, Freddie Mac will release the LOC. Oak Grove Commercial Mortgage, LLC will service the Loan on behalf of Freddie Mac during the permanent phase.

Risks and Risk Mitigation

The primary risk associated with this bond issue 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 with explicit support from the Federal government is an unlikely scenario. Freddie Mac is currently rated AA+/A-1+ by Standard & Poor's Rating Services ("S&P"). As a result, the Corporation believes that the financing is structured to effectively insulate the Corporation from credit, market and real estate risks.

In an effort to alleviate the exposure of the Corporation's subordinate debt to extensions of the liquidity component of the Credit Facility, the Borrower will be required to escrow additional principal payments. The additional payments will go into an escrow account until such time as a liquidity facility is in place through year 20 of the Project or the Bonds have been converted to a fixed rate. The escrow will be drawn on to pay down the Subordinate Loan in the event that the liquidity component of the Credit Facility is not extended or replaced or the Bonds are not converted to a fixed rate.

Future Issuances

In the event the Corporation does not receive sufficient private activity bond volume cap to issue all of the Bonds in 2012, the Corporation expects to issue the balance of the Bonds in 2013. Under this scenario, the Corporation would make two loans to the Borrower (a "2012 Loan" and a "2013 Loan") because the Credit Facility can only enhance a loan funded with Bonds. However, if the Corporation does not receive sufficient volume cap to issue tax-exempt Bonds in 2013, then pursuant to a bond issuance agreement between the Corporation, Goldman Sachs Bank and the Borrower (the "Bond Issuance Agreement"), Goldman Sachs Bank will have the option to enter into a mortgage participation agreement with the Corporation to fund the 2013 Loan until such time as the Corporation can issue tax-exempt 2013 Bonds.

The Corporation is also seeking authorization for the 2013 Bonds to be issued as taxable bonds subject to credit enhancement by Freddie Mac or another credit enhancer if private activity volume cap is not available at conversion of the Loan to the permanent phase in order to purchase Goldman's interest in the Loan.

Fees

The Mortgagor will be obligated to pay the Corporation its costs of issuance for the Bonds plus an up-front fee equal to approximately 1% of the Bonds.

In addition, the Corporation will receive an annual servicing fee on the Project beginning at the earlier of construction completion or, at the Corporation's discretion, 36 months after the construction loan closing. The Corporation's annual servicing fee will be .20% of the outstanding amount of the Loan.

Goldman Sachs Bank will receive an up-front commitment fee on the Project equal to approximately 2.00% of the LOC amount. Goldman Sachs Bank will also receive annual letter of credit fees at a rate of 2.00% of the amount available to be drawn under the LOC during construction.

Goldman will earn an up-front underwriter's fee not to exceed 0.50% of the Bonds plus its expenses. While the Bonds bear interest at a Weekly Rate, Goldman will also receive an annual fee not expected to exceed 0.10% of the outstanding amount of the Bonds for acting as Remarketing Agent. All such fees will be paid by the Mortgagor.

Freddie Mac will receive an up-front one-time commitment fee equal to 1.00% of the Loan amount and an annual fee during construction equal to approximately 1.17% of the Loan amount. After conversion to permanent financing, Freddie Mac will receive an annual fee equal to approximately 2.12% of the outstanding Loan amount.

Rating

It is expected that the Bonds will be rated AA+/A-1+ by Standard & Poor's.

Trustee and Tender Agent

U.S. Bank National Association

Senior Manager and Remarketing Agent

Goldman Sachs & Co.

Bond Counsel

Hawkins Delafield & Wood LLP

Underwriter's Counsel

Winston & Strawn LLP

Action by the Members

The Members are requested to approve an authorizing resolution which provides for (i) the adoption of the Bond Resolution and the First Supplemental Resolution, (ii) the execution of the Bond Purchase Agreement regarding the sale of the 2012 Bonds and the Forward Bond Purchase Agreement regarding the sale of the 2013 Bonds, (iii) the execution of the Bond Issuance Agreement regarding the terms and conditions for the issuance of the 2013 Bonds, (iv) the distribution of the Official Statements in connection with the financing of the 2012 Bonds and 2013 Bonds, (v) the execution of a participation agreement with respect to the 2013 Loan; and (vi) the execution of mortgage related documents and any other documents necessary to accomplish the issuance of the Bonds and the financing of the loan.

In addition, the Members are requested to approve the making of a subordinate loan to be funded by the Corporation's unrestricted reserves in an amount not to exceed $6,825,000, 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:	The new construction of 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:	see below
Market Rate Units:	104
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 Bond Amount:	$46,000,000
Bond Structure:	7-day variable rate; may be converted to other modes
Credit Enhancement:	Direct Pay Freddie Mac Credit Facility.
Owner:	1133 Manhattan Avenue LLC, a New York limited liability company, whose principals are Matthew Schwartz and Chris Papamichael of The Domain Companies LLC.
Underwriter/Remarketing Agent:	Goldman Sachs & Co.

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