NEW YORK CITY
HOUSING DEVELOPMENT
CORPORATION

M E M O R A N D U M

To: The Chairperson and Members

From: Eric Enderlin
President

Date: May 28, 2024

Re: Housing Impact Bonds, 2024 Series C, D, E, and F for the NYCHA PACT West Brighton and Boston Secor, Boston Road Plaza and Middletown Plaza (BBM) Developments and Approval of Mortgage Loans

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I am pleased to recommend that the Members approve the issuance of the Corporation's Housing Impact Bonds, 2024 Series C and 2024 Series D (the "2024 Series C Bonds" and "2024 Series D Bonds", collectively the "2024 Series C/D Bonds"); and 2024 Series E and 2024 Series F (the "2024 Series E Bonds" and "2024 Series F Bonds", collectively the "2024 Series E/F Bonds, and together with the 2024 Series C/D Bonds, the "Bonds") in an amount not to exceed $241,410,000.

Proceeds of the Bonds will be used to finance the acquisition, rehabilitation, and permanent financing of two New York City Housing Authority ("NYCHA") developments known as the PACT West Brighton ("PACT West Brighton") development and PACT Boston Secor, Boston Road Plaza, and Middletown Plaza ("PACT BBM") development (collectively, the "Projects", and each a "Project") which will consist of the conversion of tenant-occupied NYCHA public housing buildings to Section 8 supported multi-family housing projects, as described herein. The Projects are part of the "Permanent Affordability Commitment Together," or "PACT" strategy outlined in the 2018 NYCHA 2.0 strategic plan, which describes how the City of New York (the "City") will reinvest and reposition public housing through Section 8 conversions.

Interest on the 2024 Series C Bonds and the 2024 Series E Bonds is expected to be exempt from Federal and New York state and local income tax, and such bonds will qualify as tax-exempt private activity bonds with an allocation of "recycled" volume cap in accordance with the Housing and Economic Recovery Act of 2008 ("HERA"). Interest on the 2024 Series D Bonds and the 2024 Series F Bonds is expected to be federally taxable but exempt from New York state and local income tax. The anticipated interest rates, maturity dates, and relevant terms of the Bonds are described herein.

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The Members are asked to approve the use of the Corporation's general obligation pledge to support the HDC Enhanced Mortgage Loans, described herein, plus any interest due thereon.

In addition, the Members are asked to approve the origination of senior unenhanced non-accelerating loans (each, a "SUN Loan"), as described herein.

The Bonds are expected to be issued under the Corporation's Housing Impact Bonds Resolution (the "Impact Resolution"). An Authorizing Resolution will authorize the Tenth through Thirteenth Supplemental Resolutions.

Following is the background of the Impact Resolution, the proposed use of the Bonds (including their structure and security), and the Projects.

Background and Status of the Housing Impact Bonds Resolution

Under the Impact Resolution, the Corporation may issue bonds (a) to finance or acquire mortgage loans for the benefit of NYCHA and NYCHA properties and (b) to refund other bond issues of the Corporation, which had financed other multi-family developments. As of April 30, 2024, there were six permanent mortgage loans held under the Impact Resolution with a total outstanding principal balance of $1,080,196,076 for four PACT developments. There are no material monetary defaults on these mortgage loans.

Proposed Uses for the Bond Proceeds

The Bond proceeds are expected to fund mortgage loans (the "Bond Loans", and together with the SUN Loans, the "Mortgage Loans") to pay a portion of the cost of acquiring, rehabilitating, and equipping the two (2) developments as described in the chart below. The Bond Loans will be comprised of the "GSE Enhanced Mortgage Loan(s)", representing approximately 90% of the Bond Loans, and the "HDC Enhanced Mortgage Loan(s)", representing approximately 10% of the Bond Loans.

The Bond Loans are expected to have an approximate 30-year term, inclusive of an initial, five-year interest-only period, and amortize over a 40-year amortization schedule. A balloon payment will be due upon maturity.

Development Name (Borough/Units)	Expected Bond Series	Project Type	Loan	Expected Not to Exceed Amount
PACT West Brighton (Staten Island/586)	2024 Series C/D	PACT/ Section 8	GSE Enhanced Mortgage Loan	$87,275,000
			HDC Enhanced Mortgage Loan	$9,700,000

PACT BBM (Bronx/951)	2024 Series E/F	PACT/ Section 8	GSE Enhanced Mortgage Loan	$129,985,000
			HDC Enhanced Mortgage Loan	$14,450,000
TOTAL GSE ENHANCED MORTGAGE LOAN AMOUNT: $217,260,000 **TOTAL HDC ENHANCED MORTGAGE LOAN AMOUNT: $24,150,000** **TOTAL LOAN AMOUNT: $241,410,000**				

<u>Supplemental Security</u>

GSE Supplemental Security

Each GSE Enhanced Mortgage Loan is expected to be secured by supplemental security in the form of a standby credit enhancement agreement issued by Freddie Mac (the “GSE”) pursuant to which, if a payment default occurs under the respective GSE Enhanced Mortgage Loan, the GSE will advance an amount equal to the unpaid principal amount of principal and/or interest due.

The Corporation’s General Obligation Pledge

Each HDC Enhanced Mortgage Loan is expected to be secured by supplemental security in the form of a funding agreement (each an “HDC Funding Agreement”) to be provided by the Corporation. Each HDC Funding Agreement is expected to provide that if a payment default occurs under the related HDC Enhanced Mortgage Loan, the Corporation will advance the unpaid amount of principal and/or interest due. This payment obligation will be a general obligation of the Corporation.

In the event of an advance by the Corporation under an HDC Funding Agreement, any subsequent repayments of principal and interest with respect to the Project’s Loans would be allocated first to reimburse Freddie Mac in full for any advance under its standby credit enhancement agreement and to pay any amounts due under the related GSE Enhanced Mortgage Loan prior to any reimbursement of the Corporation.

The Members are asked to approve the use of the Corporation’s general obligation pledge in an amount not expected to exceed $24,150,000 plus any interest due. The general obligation pledge amount is expected to include the full principal amount of the HDC Enhanced Mortgage Loans and the interest due and payable. If a payment default occurs under any HDC Enhanced Mortgage Loan, HDC will advance an amount equal to the unpaid amount of principal and/or interest due.

<u>Project Description</u>

The Projects will go through substantial tenant-in-place rehabilitations to address 20-year capital needs, as prescribed by the United States Department of Housing and Urban Development (“HUD”). The scopes of work consist of substantial rehabilitation that is expected to improve building performance, reduce energy usage, and bring significant quality of life improvements to residents of the Projects.

The Projects will convert existing Section 9 to Section 8 supported multi-family housing projects. Approximately 10% of the Section 9 rental units in each development will convert to Section 8 through the HUD Rental Assistance Demonstration ("RAD") program. RAD shifts federal public housing operating and capital subsidy into a federal Section 8 housing assistance payment contract. The program mandates contract renewals and use agreements; robust resident rights, including resident right-to-return; and ownership by a public entity or non-profit.

Approximately 90% of the Section 9 rental units will convert to Section 8 through the Section 18 disposition process facilitating the provision of Tenant Protection Vouchers ("TPVs") valued at the lesser of rent reasonableness or 110% of fair market rent. To qualify for Section 18 and corresponding TPVs, a property must meet HUD's definition of "obsolescence". The developments are expected to meet the required threshold.

Each Project is also expected to receive a subordinate loan made by the Corporation using city capital granted by the City of New York, acting by and through its Department of Housing Preservation and Development ("HPD"); the Projects are currently under review by the New York City Office of Management and Budget for the city capital funding.

For more information on these developments, please see Attachments "1" - "2".

Historic Tax Credits

The Projects are expected to be listed on the National Register of Historic Places (the "National Register") and the New York State Register of Historic Places by the National Parks Service ("NPS") and the New York State Historic Preservation Office, respectively, making it eligible to receive federal historic tax credits ("FHTC") and state historic tax credits ("SHTC", and together with the FHTC, the "HTC"). The Projects are expected to receive capital contributions in exchange for the right to claim the HTC generated by the rehabilitation of the Projects.

The transactions will be structured to include an HTC pass-through master lease. Through this structure, the HTC investor is expected to contribute equity to the Projects and receive certain payments from cash flow. Once the property is placed in service, the HTC investor will operate the Property, collect rent from tenants at the Property, and make rent payments back to the Borrower, in an amount sufficient to cover the financing and economic requirements of the Borrower, including mortgage payments, replacement reserves, insurance, and distributions. In addition, the HTC investor will also own a small percentage of the Borrower.

The Corporation will enter into Subordination, Non-Disturbance and Attornment Agreements with regard to the HTC master lease that preserves certain enforcement rights of the Corporation with respect to the Mortgage Loans but prevents the Corporation from taking certain actions that would cause a recapture of the HTCs during the 5-year compliance period that begins on the date the project is placed in service.

Structure of the Bonds

The Members are being asked to authorize the issuance of the Bonds pursuant to multi-modal Supplemental Resolutions. Accordingly, all or a portion of the Bonds may be converted to other interest rate modes provided for in the Supplemental Resolutions such as a fixed rate or variable rate.

The Bonds are expected to be issued as described below, however, the Authorizing Resolution relating to the Bonds will provide that a senior officer of the Corporation may determine to combine supplemental resolutions or issue the Bonds as taxable or tax-exempt, in multiple issuances pursuant to the same resolution and in one or more series or sub-series as long as the total principal amount of Bonds issued does not exceed $241,410,000 and the interest rate on the Bonds does not exceed 15%. The Corporation expects to designate the Bonds as Sustainable Development Bonds.

2024 Series C and 2024 Series E Bonds

It is anticipated that the 2024 Series C Bonds and 2024 Series E Bonds, in an amount not expected to exceed $96,975,000, will initially be issued as tax exempt fixed rate bonds with a true interest cost of approximately 5% during the initial Fixed Rate period, which is expected to be approximately thirty (30) years.

2024 Series D and 2024 Series F Bonds

It is anticipated that the 2024 Series D Bonds and 2024 Series F Bonds, in an amount not expected to exceed $144,435,000, will initially be issued as taxable fixed rate bonds with a true interest cost of approximately 6.5% with a maturity date that is expected to be approximately thirty (30) years.

<u>Security for Bonds</u>

The Bonds are special revenue obligations of the Corporation, and payment of principal and interest on the Bonds will be secured by the revenues and assets pledged to such payment. The Bonds will be issued on a parity basis with all outstanding previous series of bonds and all future bonds to be issued under the Resolution and secured by all collateral anticipated to be held under the Resolution. The total loan amount of the mortgages to be funded with the proceeds of the Bonds will be pledged to the Impact Resolution. Approximately $2,451,015 will be deposited into an interest reserve upon the Bond closing to ensure that sufficient funds will be available to pay the debt service on the Bonds.

As of April 30, 2024, the existing collateral of the Impact Resolution consisted of the following:

TYPE OF COLLATERAL	# OF LOANS	AMOUNT	% OF TOTAL
Freddie Mac Enhanced Mortgage Loans	3	$744,737,339	68.9%
HDC Enhanced Permanent Mortgages	2	$47,292,742	4.4%
Fannie Mae Enhanced Mortgage	1	$288,165,996	26.7%
Total*	6	$1,080,196,076	100%

* May not add due to rounding

SUN Loan

Each Project is also expected to be financed with a senior unenhanced non-accelerating loan (the SUN Loan, as defined above), in a total amount not to exceed $82,400,000.

The Corporation expects to fund the SUN Loans with recycled volume cap bonds under its Open Resolution but may fund the SUN Loans with its unrestricted reserves or available funds of the Open Resolution based on the availability of recycled volume cap.

The Corporation's expected funding of the SUN Loan is further described in the memorandum entitled "Multi-Family Housing Revenue Bonds, 2024 Series B and C and Approval of Mortgage Loans" to be presented to the Members concurrently herewith.

Each SUN Loan will be senior, un-enhanced and non-accelerating with fixed principal and interest payments that are designed to mimic real estate taxes. Each SUN Loan will have a 40-year term and will fully amortize after a five-year interest-only period. Due to the enormity of the PACT initiative goals and the limited availability of relatively low-cost financing, the Corporation developed the SUN Loan structure to leverage resources and save on costs such as third-party credit enhancement fees.

The obligation under each SUN Loan with respect to each separate year during which the SUN Loan remains outstanding, will be evidenced by a separate mortgage note ("SUN Note") and subject to a separate first lien mortgage ("SUN Mortgage"). Each SUN Note will be secured by a SUN Mortgage in the inverse order of priority (i.e., the SUN Note maturing after the first year will be secured by the SUN Mortgage that is in last position), to ensure that any foreclosure will be subject to the remaining, more senior SUN Mortgages. The only default that can occur under the SUN Loan is the failure to pay amounts due under the SUN Note for each year. The debt service coverage on the SUN Loan will be very high as described below in the Risk and Risk Mitigation section.

Risks and Risk Mitigation

The primary risks associated with the Projects are (1) construction completion risk; (2) payment default by the Borrower; and (3) refinance risk. Corporation staff believes these risks are mitigated by several factors. Construction completion risk is mitigated by the Development Teams' experience renovating similar tenant-in-place rehabilitation projects, the completion guaranty to be provided by the General Contractor, the 100% Payment and Performance bonds provided by the General Contractor, and the monitoring of construction by a third-party. Payment default risk is mitigated by the Section 8 contract payments, the Development Teams' history in operating and managing similar projects, conservative underwriting incorporating low loan-to-value ratios, and income to expense ratios, the Corporation's ongoing asset management and monitoring of the developments, and the GSE Credit Enhancement of the GSE Enhanced Mortgage Loan. At loan closing, the Bond Loans are expected to have debt service coverage ratios below 1.15 due to vacant units that are expected to be used for temporary on-site tenant relocation during rehabilitation. To mitigate payment default risk caused by such vacancies and low debt service coverage, the Projects have sized robust reserves to cover debt service for the duration of rehabilitation and the Projects have an extended period of interest-only payments beyond the construction term. The risk is expected to be further mitigated by the applicable Borrower's commitment to post additional collateral if the project income does not increase within approximately six months after the closing of the applicable project.

As described earlier, the Corporation will be obligated to cover HDC Enhanced Mortgage Loan losses. The Corporation staff believes this is an acceptable risk for the reasons described above. The SUN Loan, as a first position loan, benefits from very high debt service coverage in excess of 4.0. For this reason, the risk of non-payment is particularly low, and the Corporation will not require any additional credit enhancement with respect to the SUN Loan. Refinance risk is mitigated by conservative refinance assumptions and 25 years of amortization of the Bond Loans following the interest only period.

Deposits and Fees

Each Borrower will pay the Corporation its costs of financing which is expected to be approximately 1.50% of the respective total Mortgage Loan amount, plus an up-front commitment fee equal to 0.75% of such Mortgage Loans.

The Borrower will pay the respective GSE Enhanced Mortgage Loan Servicer an up-front origination fee equal to 1.00% of the associated GSE Enhanced Mortgage Loan.

The Borrower will pay the Corporation an ongoing annual credit enhancement fee of at least 0.35%, included in the interest rate of the Mortgage Loans.

The Borrower will pay the Corporation an annual servicing fee of at least 0.20% on the original principal balance of the Mortgage Loans.

The Borrower will pay the GSE and its servicer lender an ongoing annual guaranty fee and an annual service fee, included in the interest rate of the Bond Loan.

Rating

The Bonds are expected to be rated Aa2 by Moody's.

Underwriters

It is anticipated that the 2024 Series C/D Bonds will be underwritten or remarketed by or directly placed with one or more of the following or their affiliates:

Senior Manager
Wells Fargo Bank, National Association

Co-Senior Manager
RBC Capital Markets

Co-Managers:
Bofa Securities, Inc.
Barclays Capital Inc.
Bancroft Capital, LLC
Jefferies LLC
J.P. Morgan Securities, LLC
Loop Capital Markets LLC
Morgan Stanley & Co. LLC
Raymond James & Associates, Inc.
Samuel A. Ramirez & Co., Inc.
Siebert Williams Shank & Co., LLC

It is anticipated that the 2024 Series E/F Bonds will be underwritten or remarketed by or directly placed with one or more of the following or their affiliates:

Senior Manager
Bofa Securities, Inc.

Co-Senior Manager
Samuel A. Ramirez & Co., Inc.

Co-Managers:
Barclays Capital Inc.
Bancroft Capital, LLC
Jefferies LLC
J.P. Morgan Securities, LLC
Loop Capital Markets LLC
Morgan Stanley & Co. LLC
Raymond James & Associates, Inc.
RBC Capital Markets
Siebert Williams Shank & Co., LLC
Wells Fargo Bank, National Association

The Authorizing Resolution relating to the Bonds provides that a senior officer of the Corporation may select the underwriters or remarketing agents or their affiliates at a later time.

Underwriters' Counsel for the Bonds

Tiber Hudson LLC

Bond Trustee

U.S. Bank Trust Company, National Association

Bond Counsel and Disclosure Counsel

Hawkins Delafield & Wood LLP is expected to be Bond Counsel for the 2024 Series C/D Bonds and Disclosure Counsel for the 2024 Series E/F Bonds.

Orrick, Herrington & Sutcliffe is expected to be Bond Counsel for the 2024 Series E/F Bonds and Disclosure Counsel for the 2024 Series C/D Bonds.

A senior officer of the Corporation may determine to re-designate counsel roles based on timing of issuances to create efficiencies.

Action by the Members

The Members are requested to approve an authorizing resolution that provides for (a) the adoption of the Supplemental Resolutions to the Impact Resolution providing for the issuance of the Bonds, (b) the distribution of preliminary and final Official Statement(s) for the Bonds, (c) the execution of bond purchase agreement(s) with the Underwriter(s) of the Bonds or a direct purchaser of any or all of the Bonds; (d) the use of the Corporation's unrestricted reserves to fund costs of issuance for the Bonds and to fund all or a portion of the debt service reserve account requirement in connection with any or all of the series of Bonds, as may be required; (e) the pledge to the Housing Impact Bonds Resolution of any mortgage loans or other assets of the Corporation; and (f) the execution by the President or any Authorized Officer of the Corporation of any and all documents necessary to issue the Bonds and to make the mortgage loans relating to the Bonds, including the HDC Funding Agreements.

The Members are asked to authorize the use of the Corporation's general obligation pledge in an amount not to exceed $24,150,000 plus any interest on the HDC Enhanced Mortgage Loans due.

The Members are asked to authorize the origination of SUN Loans in an amount not to exceed $82,400,000, and the mortgage-related documents and other documents necessary to accomplish the SUN Loan financings.

<u>Exhibit “1”</u>

PACT West Brighton
Staten Island, New York

Project Location:	820 Henderson Avenue 806 Henderson Avenue 780 Henderson Avenue 778 Henderson Avenue 778 GAR Henderson Avenue 810 Henderson Avenue 240 Broadway 1077 Castleton Avenue 1075 Castleton Avenue 159 Alaska Street 157 Alaska Street 155 Alaska Street 1115 Castleton Avenue 1085 Castleton Avenue 1065 Castleton Avenue 260 Broadway 244 Broadway
HDC Program:	NYCHA PACT
Project Description:	The Project will consist of the preservation of 586 residential rental units in 17 buildings and 135 parking spaces in the West New Brighton neighborhood of Staten Island.
Total Rental Units:	585 (plus one superintendent unit)
Apartment Distribution:	

Unit Size	No. of Units
Studio	0
1 bedroom	193
2 bedroom	184
3 bedroom	174
4 bedroom	35
Total Units*	586

*Total Units are inclusive of one superintendent unit

Expected HDC Construction Financing Amount:	N/A
Expected HDC Permanent Financing Amount:	SUN Loan: $29,380,000 Freddie Mac Enhanced Mortgage Loan: $79,335,000 HDC Enhanced Mortgage Loan: $8,815,000
Expected Total Development Cost:	$334,162,000
Owner:	West Brighton Partners LLC, the beneficial ground lessee, whose principals are Donald Capoccia (DAC Master, LLC), Brandon Baron (BFC West Brighton LLC), Joseph Ferrara (Ferrara Master LLC), Benethan Upshaw (CB West Brighton LLC) and R. Christopher Bramwell, Jr. (CB West Brighton LLC), and CH WB Housing Development Fund Corporation, the nominal ground lessee, whose sole member is Association of New York Catholic Homes Inc. whose board of directors and officers consists of Monsignor Kevin Nelan, Eric Cruz, Philip Dorian, and Erika Brandt.
Historic Tax Credit Equity Investor	Wells Fargo Community Lending and Investments
Developer:	BFC Partners Development LLC, CB Emmanuel Realty LLC, and Catholic Homes New York

Credit Enhancer:	Construction - N/A Permanent - Freddie Mac will provide credit enhancement for the GSE Enhanced Mortgage Loan. The HDC Funding Loan Agreement will provide credit enhancement for the HDC Enhanced Mortgage Loan.

Exhibit "2"

PACT Boston Secor, Boston Road Plaza, and Middletown Plaza
Bronx, New York

Project Location:	2424 Boston Road 2440 Boston Road 3033 Middletown Plaza 3475 Bivona Street 3555 Bivona Street 3550 Bivona Street 2185 Reeds Mill Lane 3540 Bivona Street
HDC Program:	NYCHA PACT
Project Description:	The Project will consist of the preservation of 952 residential rental units in 8 buildings and 374 parking spaces in the Eastchester, Allerton, and Pelham Bay neighborhoods of the Bronx.
Total Rental Units:	948 (plus three superintendent units)
Apartment Distribution:	

Unit Size	No. of Units
Studio	71
1 bedroom	473
2 bedroom	222
3 bedroom	119
4 bedroom	61
5 bedroom	5
Total Units*	951

*Total Units are inclusive of three superintendent units

Expected HDC Construction Financing Amount:	N/A
Expected HDC Permanent Financing Amount:	SUN Loan: $43,345,000 Freddie Mac Enhanced Mortgage Loan: $118,165,500 HDC Enhanced Mortgage Loan: $13,129,500
Expected Total Development Cost:	$499,337,482
Owner:	BBM BRC LLC, the beneficial ground lessee, whose principals are Howard Cohen, Pierre Downing, Amy Stokes, Noel Henderson-James, and MBD Housing Development Fund Corporation, the nominal ground lessee, whose sole member is M.B.D. Community Housing Corporation whose board of directors and officers consists of Derrick Lovett, April Horton, and Wallace Mobley.
Historic Tax Credit Equity Investor	J.P. Morgan Chase Bank, N.A.
Developer:	Beacon Communities Development LLC, Kalel Ventures LLC, MBD Community Housing Corporation
Credit Enhancer:	Construction - N/A Permanent - Freddie Mac will provide credit enhancement for the GSE Enhanced Mortgage Loan. The HDC Funding Loan Agreement will provide credit enhancement for the HDC Enhanced Mortgage Loan.