M E M O R A N D U M

To: The Chairperson and Members

From: Eric Enderlin
President

Date: March 31, 2025

Re: Housing Impact Bonds, 2025 Series A and 2025 Series B for the NYCHA PACT Northwest Bronx Development 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, 2025 Series A and 2025 Series B (the "2025 Series A Bonds" and "2025 Series B Bonds", collectively the "Bonds") in an amount not to exceed $293,670,000.

Proceeds of the Bonds will be used to finance the acquisition, rehabilitation, and permanent financing of the New York City Housing Authority ("NYCHA") developments collectively known as PACT Northwest Bronx (the "Project") which will consist of the conversion of 1,669 units across eight development sites within 14 tenant occupied NYCHA public housing buildings to Section 8 supported multi-family housing projects, as described herein. The Project is 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 2025 Series A 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 2025 Series B 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.

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

In addition, the Members are asked to approve the origination of a senior unenhanced non-accelerating loan ("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 sixteenth and seventeenth Supplemental Resolutions.

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

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 February 28, 2025, there were fourteen permanent mortgage loans held under the Impact Resolution with a total outstanding principal balance of $1,434,858,781 for eight 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 two mortgage loans (the "Bond Loans", and together with the SUN Loan, the "Mortgage Loans") to pay a portion of the cost of acquiring, rehabilitating, and equipping the Project as described in the chart below. The Bond Loans will be comprised of the "GSE Enhanced Mortgage Loan", representing approximately 90% of the Bond Loans, and the "HDC Enhanced Mortgage Loan", 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, with an interest rate of approximately 6.873%. A balloon payment will be due upon maturity.

Merchants Capital Corp ("Merchants") will be the servicer of the Mortgage Loans and the City Capital Loan (described below) pursuant to a servicing, intercreditor and appointment agreement between the Corporation, Fannie Mae and Merchants.

Development Name (Borough/Units)	Project Type	Loan	Expected Not to Exceed Amount
PACT Northwest Bronx (Bronx/1,669)	PACT/ Section 8	GSE Enhanced Mortgage Loan	$264,300,000
		HDC Enhanced Mortgage Loan	$29,370,000
TOTAL LOAN AMOUNT: $293,670,000			

Supplemental Security

GSE Supplemental Security

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

The Corporation's General Obligation Pledge

The HDC Enhanced Mortgage Loan is expected to be secured by supplemental security in the form of a funding agreement (the "HDC Funding Agreement") to be provided by the Corporation. The HDC Funding Agreement is expected to provide that if a payment default occurs under the 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 the HDC Funding Agreement, any subsequent repayments of principal and interest with respect to the Project's Bond Loans would be allocated first to reimburse Fannie Mae 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 $29,370,000 plus any interest due. The general obligation pledge amount is expected to include the full principal amount of the HDC Enhanced Mortgage Loan and the interest due and payable. If a payment default occurs under the HDC Enhanced Mortgage Loan, HDC will advance an amount equal to the unpaid amount of principal and/or interest due.

Transaction Summary and History

The proposed new financing is subject to receipt of required HUD approvals, described below.

Following the PACT conversion, 100% of the rental units are expected to be governed by the Rental Assistance Demonstration (RAD) for the Conversion of Public Housing to the Section 8 Project-Based Voucher Program HAP Contract (the "RAD HAP Contract").

RAD shifts federal public housing operating and capital subsidy into a federal Section 8 housing assistance payment (HAP) contract. The program mandates contract renewals and use agreements; robust resident rights, including resident right-to-return; and partial ownership by a public entity or non-profit.

Project Description

The Project is comprised of 1,669 units across eight development sites, consisting of 14 residential and 1 non-residential buildings located in the Kingsbridge Heights, University Heights, Crotona, and Belmont sections of the Bronx. Four (4) of the Project developments are located in federally recognized Opportunity Zones. Eight (8) of the residential units will be occupied by resident superintendents. One (1) unit currently serves as a Resident Association Office and will continue to do so post-rehabilitation.

Pursuant to the RAD HAP Contract and RAD program requirements, the Project will be reserved for low-income households and existing tenants of the Project. The Project is approximately 91.63% occupied, with a majority of households earning below 50% of Area Median Income ("AMI"), which is currently $77,650 for a family of four. Approximately 2.23% of the existing tenants (34 families) are expected to be over-income but will be allowed to remain in residence (the "Over Income Units"). Upon vacancy, as permitted by the RAD HAP Contract, the Over Income Units will be rented to households from NYCHA's Section 8 waiting list earning no more than 50% of AMI. In addition to income restrictions under the RAD HAP Contract, the Project will be subject to the terms of a regulatory agreement to be executed by the Corporation and the Borrower (the "HDC Regulatory Agreement"). The occupancy restrictions under the HDC Regulatory Agreement will require units to be reserved for households earning no more than 60% of AMI and remain in effect for as long as the term of the NYCHA ground lease (the "Occupancy Restriction Period").

As part of the PACT conversion, the Project will go through a substantial tenant-in-place rehabilitation of its 1,669 units that will address all 20-year capital needs, as prescribed by HUD. The scope of work consists of an extensive rehabilitation program that is expected to bring significant quality of life improvements to residents of the Project, improve the Project's energy efficiency performance and enhance the Project. Specific improvements include upgraded kitchens and baths; facade repairs and upgrades; new energy efficient windows; broadband infrastructure installation for subsidized access to broadband; mechanical and electrical upgrades; new storefronts, security, and access control; full lobby and common area upgrades; new roofing systems; and lead testing and abatement.

The Project is also expected to receive a subordinate loan (the "City Capital Loan") made by the Corporation using capital funds granted by the City of New York, acting by and through its Department of Housing Preservation and Development ("HPD").

For more information on the PACT Northwest Bronx development, please see Exhibit "1".

Historic Tax Credits

Three (3) of the eight (8) Project developments 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 them eligible to receive federal historic tax credits ("FHTC") and state historic tax credits ("SHTC", and together with the FHTC, the "HTC"). The Project is expected to receive capital contributions in exchange for the right to claim the HTC generated by the rehabilitation of the Project.

The investment of the HTC equity will be structured through an HTC pass-through master lease. Through this structure, the HTC master tenant will operate the Property, collect rent from tenants at the Property, and make rent payments back to the Borrower, as landlord, 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 master tenant 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 $293,670,000 and the interest rate on the Bonds does not exceed 15%. The Corporation expects to designate the Bonds as Sustainable Development Bonds.

2025 Series A Bonds

It is anticipated that the 2025 Series A Bonds, in an amount not expected to exceed $146,835,000, will initially be issued as tax exempt fixed rate bonds with a true interest cost of approximately 5.25% during the initial Fixed Rate period, which is expected to be approximately thirty (30) years.

2025 Series B Bonds

It is anticipated that the 2025 Series B Bonds in an amount not expected to exceed $146,835,000, will initially be issued as taxable fixed rate bonds with a true interest cost of approximately 6.25% with a maturity date that is expected to be approximately thirty (30) years.

Security for Bonds

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 $3,163,549 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 February 28, 2025, the existing collateral of the Impact Resolution consisted of the following:

TYPE OF COLLATERAL	# OF LOANS	AMOUNT	% OF TOTAL
Freddie Mac Enhanced Mortgages	7	$1,065,960,344	74.3%
HDC Enhanced Permanent Mortgages	6	$83,037,807	5.8%
Fannie Mae Enhanced Mortgage	1	$285,860,631	19.9%
Total*	14	$1,434,858,781	100%

* May not add due to rounding

SUN Loan

The 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 $100,825,000.

The Corporation expects to fund the SUN Loan with available funds of the Open Resolution and/or the Corporation's unrestricted reserves until such time as it issues recycled volume cap bonds under its Open Resolution and reimburses itself for funds advanced. The issuance of such Open Resolution bonds for that purpose is described in more detail in the memo entitled “Multi-Family Housing Revenue Bonds, 2025 Series B; and Approval of Mortgage Loans”.

The SUN Loan will be senior, unenhanced and non-accelerating with fixed principal and interest payments that are designed to mimic real estate taxes. The 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 the 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 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 Risks and Risk Mitigation section.

Risks and Risk Mitigation

The primary risks associated with the Project 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 Developer's experience renovating similar tenant-in-place rehabilitation projects, the completion guaranty to be provided by the Developer, 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 Developer's history in operating and managing similar projects, conservative underwriting incorporating low loan-to-value ratios, and satisfactory 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 Project has sized robust reserves for the duration of the rehabilitation and the Project has an extended period of interest-only payments beyond the construction term.

The risk of payment default is expected to be further mitigated by the requirement of the Borrower to post additional collateral at the closing of the 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 of approximately 4.69. 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 on the Mortgage Loans following the interest only period.

Deposits and Fees

The Borrower will pay the Corporation its costs of financing which is expected to be approximately 1.50% of the respective Mortgage Loan amount, plus an up-front commitment fee equal to 0.75% of such Mortgage Loans.
The Borrower will pay Merchants an up-front origination fee equal to 1.00% of the associated GSE Enhanced Mortgage Loan. The Borrower will also pay Merchants an ongoing annual servicing fee of 0.05%, included in the interest rate on 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 Fannie Mae an ongoing annual guaranty fee of 0.47%, included in the interest rate of the GSE Enhanced Mortgage Loan.

Rating

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

Underwriters

It is anticipated that the 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
Morgan Stanley & Co. LLC
Samuel A. Ramirez & Co., Inc.

Co-Managers:
Academy Securities, Inc.
Bancroft Capital, LLC
BofA Securities, Inc.
Jefferies LLC
J.P. Morgan Securities, LLC
Oppenheimer & Co. Inc.
Raymond James & Associates, Inc.
RBC Capital Markets
Roosevelt & Cross, Incorporated
TD Securities (USA) LLC

Underwriters' Counsel for the Bonds

Tiber Hudson LLC

Bond Trustee

U.S. Bank Trust Company, National Association

Bond Counsel and Disclosure Counsel

Orrick, Herrington & Sutcliffe LLP is expected to be Bond Counsel for the Bonds.

Hawkins Delafield & Wood LLP is expected to be Disclosure Counsel for the Bonds.

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

<u>Action by the Members</u>

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 Agreement.

The Members are asked to authorize the use of the Corporation's general obligation pledge in an amount not to exceed $29,370,000 plus any interest due on the HDC Enhanced Mortgage Loan due.

The Members are asked to authorize the use of the Corporation's unrestricted reserves or available funds of the Open Resolution to finance the SUN Loan in an amount not to exceed $100,825,000, and the mortgage- related documents and other documents necessary to accomplish the SUN Loan financing.

<u>Exhibit “1”</u>

PACT Northwest Bronx
Bronx, New York

Project Location:	1010 East 178th Street 230 West 193rd Street 2100 Monterey Avenue 3340 Bailey Avenue 1930 Harrison Avenue 1886 Harrison Avenue 1920 Harrison Avenue 1925 Harrison Avenue 1934 Harrison Avenue 1865 University Avenue 1875 University Avenue 1895 University Avenue 1925 University Avenue 2070 Clinton Avenue
HDC Program:	NYCHA PACT
Project Description:	The Project will consist of the preservation of 1,669 residential rental units in 14 buildings and 134 parking spaces in the Kingsbridge Heights, University Heights, Crotona, and Belmont neighborhoods of the Bronx.
Total Rental Units:	1,660 (plus nine superintendent units)
Apartment Distribution:	

Unit Size	No. of Units
Studio	151
1 bedroom	598
2 bedroom	585
3 bedroom	265
4 bedroom	66
5 bedroom	4
Total Units*	1,669

*Total Units are inclusive of nine superintendent units

Expected HDC Construction Financing Amount:	N/A
Expected HDC Permanent Financing Amount:	SUN Loan: $88,985,000 GSE/HDC Loan: $266,965,000
Expected Total Development Cost:	$730,581,002
Owner:	NW Bronx Housing Preservation Experience and NW Bronx OZ Housing Preservation Experience LP (co-borrowers) controlled by the New York City Housing Authority; The Arker Companies, whose principals are Daniel Moritz, Alex Arker, and Allan Arker; Dabar Development Partners, whose principal is Dawanna Williams; and Omni New York LLC, whose principals are Eugene Shneur, Robert Bennett, and Maurice Vaughn. Nominee agreement through NW Bronx PACT HDFC and NW Bronx OZ HDFC, both of which are 100% controlled by Alliance for Housing, Inc.
Developer:	The Arker Companies, Omni NW Bronx Preservation LLC, Dabar Development LLC
Credit Enhancer:	Construction - N/A Permanent – Fannie Mae will provide credit enhancement for the GSE Enhanced Mortgage Loan