



NEW YORK CITY  
HOUSING DEVELOPMENT  
CORPORATION

## MEMORANDUM

**To:** The Chairperson and Members

**From:** Richard Froehlich *RJ*  
Acting President

**Date:** March 21, 2019

**Re:** Approval of Corporate Reserves to Fund HPD Cluster Sites Loans

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I am pleased to recommend that the Members approve the Corporation's use of unrestricted corporate reserves in an amount not expected to exceed \$6,600,000 for the purpose of participating with the New York City Department of Housing Preservation and Development ("HPD") in the acquisition of property for supportive housing financed primarily by the City. The amount of corporate reserves used by the Corporation will be refunded by HPD through a grant of City Capital funds to replace the Corporation's corporate reserves in a different project as further described in this memo.

### Background

As part of its effort to phase out the use of cluster site housing, the City is planning to acquire a 729-unit, 21-building scattered site portfolio located across the Bronx and Brooklyn (the "Cluster Sites") from its current owner in order to rehabilitate the buildings and transition the units to permanent supportive housing. Of the units being acquired, 660 are located in the Bronx and 69 units are located in Brooklyn. A schedule of the Cluster Sites can be found attached hereto as Exhibit A. HPD will facilitate the acquisition of the Cluster Sites by two not-for-profit organizations, the Joint Ownership Entity NYC ("JOE") and Neighborhood Restore Housing Development Fund Corporation ("NR"). Each of JOE and NR will take ownership of a certain number of the properties and, with the help and direction of HPD, will in turn transfer individual or small groups of properties to other not-for-profit organizations as part of future rehabilitation and supportive housing projects.

In order to facilitate the acquisition of the Cluster Sites, and due to funding restrictions for New York City related to the creation of prudent reserves for the Cluster Sites which are not eligible capital expenses for the City, the City is requesting that the Corporation help finance in part the

acquisition of the Cluster Sites pursuant to a swap described herein. The Members authorized a similar funding swap for the HPD Green Initiatives program on October 7, 2015.

### **Proposed Uses**

The Corporation will help finance a portion of the acquisition pursuant to an interagency Memorandum of Understanding (“MOU”) with HPD. The MOU will provide that the Corporation make two loans, one to each of JOE and NR (the “Cluster Loans”), expected to total approximately \$5,500,000 from unrestricted corporate reserves to be used to fund reserve accounts for each of JOE and NR’s set of properties (the “Cluster Reserve Accounts”). The Corporation will hold the Cluster Reserve Accounts and service them at the direction of HPD.

The acquisition financing for the Cluster Sites and the future rehabilitation financing for each site will be subject to HPD program terms and HPD will underwrite and close each transaction. HPD will enter into a regulatory agreement for the sites that places income restrictions on a portion of the units.

The Cluster Loans will be made in the Corporation’s name and will be assigned to HPD immediately at the acquisition closing. All interest and debt service payments, if any, on the Cluster Loans will be paid to HPD.

In exchange for the Corporation financing the Cluster Loans, HPD will grant City Capital funds to HDC in an amount equal to the Cluster Loans for a new construction project financed by the Corporation (“HDC Project Loan”) (currently anticipated to be the Spring Creek 4B-2 project that is expected to be financed in April 2019 and that will be separately presented to the Members for approval at the March 28, 2019 Members meeting, or such other eligible project that will be presented to the Members for approval at a future date). HPD’s funding 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 grant agreement.

Any and all interest earned on the City Capital-funded HDC Project Loan will be paid to HDC. 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.

### **Risks and Risk Mitigation**

All repayment risk associated with Cluster Loans 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, which fees are expected to be paid from the Cluster Reserve Accounts. If funds in the Cluster Reserve Accounts 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.

**Fees**

The Corporation shall retain any investment interest earnings on the amounts in the Cluster Reserve Accounts as a servicing fee in compensation for servicing the Cluster Reserve Accounts.

**Action by the Members**

The Members are requested to authorize the use of up to \$6,600,000 of the Corporation's unrestricted reserves to fund the making of the Cluster Loans.