




NEW YORK CITY
HOUSING DEVELOPMENT
CORPORATION

MEMORANDUM

To: The Chairperson and Members

From: Eric Enderlin 
President

Date: September 19, 2019

Subject: Approval of a Participation Construction Loan and Approval of a Permanent Loan for East Village Homes

I am pleased to recommend that the Members approve the origination of a taxable construction loan (the "Senior Construction Loan") in an amount not to exceed \$16,770,600 and a permanent loan to provide permanent financing for the Project defined herein in an amount not to exceed \$8,338,000 (the "Senior Permanent Loan" and, together with the Senior Construction Loan, the "Loans"). The Senior Construction Loan is anticipated to be originated by the Corporation and funded by the Low Income Investment Fund ("LIIF"). The Senior Permanent Loan may be initially funded with the Corporation's unrestricted reserves and reimbursed with taxable bonds or funded with available funds of the Open Resolution. Any issuance of taxable bonds will be presented to the Members for approval at the time.

During the construction term, LIIF is expected to have a 100% participation interest in the Senior Construction Loan funded pursuant to a participation agreement between the Corporation and LIIF. At permanent conversion, the Senior Permanent Loan is expected to be insured by New York City Residential Mortgage Insurance Corporation ("REMIC").

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

The Loans

The proceeds of the Senior Construction Loan will be used by East Village Homes Owner LLC, a New York limited liability company (the "Borrower") for the acquisition and construction of a 45-unit rental housing development known as East Village Homes (the "Project") in Manhattan. Additional financing for the Project will be in the form of mortgage loans originated by the Corporation pursuant to delegated authority from the Members and funded by grants from HPD.

The Senior Construction Loan is anticipated to be originated by the Corporation and, pursuant to a participation agreement, funded by LIIF in an amount not to exceed \$16,770,600 at a fixed interest rate expected to be the greater of 5.9% or the two-year U.S. Treasury Yield Curve Rate plus 4.00% with an anticipated construction term of thirty months.

The Senior Permanent Loan is expected to have a 35-year term and an interest rate of 5.25%. The Senior Permanent Loan will be used to acquire LIIF's participation interest in the Senior Construction Loan and provide permanent financing for the Project in an amount not to exceed \$8,338,000. The remainder of the Senior Construction Loan is expected to be repaid by a capital contribution of Federal 9% Low-Income Housing Tax Credit ("LIHTC") equity.

The Project will be developed under the Corporation's Mix & Match Program.

Project Description

The Project consists of the new construction of one (1) 14-story building in the East Village neighborhood of Manhattan. A laundry room, bicycle parking and storage area will be located on the 11th floor.

The Project will consist of 13 studio units, 19 one-bedroom units, 12 two-bedroom units and one non-revenue generating two-bedroom unit set aside for a superintendent. The Project also contains one revenue generating 945 square foot community facility, anticipated to be rented by a third-party not-for-profit organization. The Project will be reserved for very low, low-and moderate-income households with 6 units income restricted at 20% of Area Median Income ("AMI"), 2 units income restricted at 30% AMI, 7 units income restricted at 50% AMI, 14 units income restricted at 80% AMI and 15 units income restricted at 140% AMI.

Eight units in the Project are expected to benefit from a project-based Section 8 Housing Assistance Payments Renewal Contracts ("HAP Contract") with the U.S. Department of Housing and Urban Development ("HUD").

The Project will be subject to the terms of a regulatory agreement to be executed by HPD, the Corporation and the Borrower (the "HPD/HDC Regulatory Agreement"). Due to the Project's expected receipt of 9% LIHTC as opposed to the 4% LIHTC that is more commonly used in HDC transactions, HPD is expected to monitor the Project's compliance with the 9% LIHTC pursuant to the HPD/HDC Regulatory Agreement. The occupancy restrictions under the HPD/HDC Regulatory Agreement will remain in effect for as long as the Senior Permanent Loan is outstanding and for a minimum of sixty (60) years from the Permanent Conversion Date (the "Occupancy Restriction Period").

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

Borrower and Developer Description

On December 12, 2014, HPD issued a Request for Qualifications for approximately 146 sites located in Manhattan, Brooklyn, Queens and the Bronx to be developed under HPD's New Infill

Homeownership Opportunities Program (NIHOP) and Neighborhood Construction Program (NCP). On April 10, 2017, HPD selected AAFE, Inc. as the sponsor for the Project, which will be developed under HPD's NCP term sheet. HPD also selected AAFE, Inc. to develop a nearby site (Block 372, Lot 11), which will be financed separately from the Project. The Borrower will be East Village Homes Owner LLC. The membership of the Borrower will be comprised of the 0.01% owner and managing member, East Village Homes Manager Corp., which is solely owned and managed by AAFE, Inc. and the 99.99% owner and investor member, Wincopin Circle LLLP, an affiliate of Enterprise Community Partners.

Since 1990, AAFE, Inc. has completed numerous affordable housing developments in Manhattan and Queens, including two new construction projects in the Lower East Side area of Manhattan that were financed with 9% LIHTC equity. The Corporation currently services permanent loans for 4 projects owned and developed by AAFE, Inc. AAFE, Inc. was the co-developer of a new construction project known as One Flushing of 232 units financed by the Corporation that was completed in 2019 and is currently 73% leased.

Fee title to the Project is currently held by the City of New York, acting by and through HPD. Upon Construction Loan closing it is expected that HPD will dispose of the property to East Village Homes Housing Development Fund Company, Inc., (the "HDFC") a newly created entity whose sole member is Asian Americans for Equality, Inc. ("AAFE, Inc."), for \$1. Pursuant to a nominee agreement, the HDFC will transfer equitable and beneficial interest in the property to the Borrower.

The guarantor of certain obligations under the loan documents is expected to be AAFE, Inc.

Stanton Norfolk, Inc., an affiliate of AAFE, Inc., is expected to serve as managing and marketing agent for the Project.

Risks and Risk Mitigation

The primary risk associated with the Senior Permanent Loan is a payment default by the Borrower. The Corporation's staff believes that this risk is mitigated through conservative underwriting incorporating low loan-to-value ratios, strong debt service coverage and income to expense ratios, the Borrower's history in constructing, operating and managing similar projects, and the Corporation's ongoing asset management and monitoring of the development. The risk of default on the Project is also partially mitigated by the Corporation's use of mortgage insurance policies provided by REMIC.

Fees

The Borrower will be obligated to pay the Corporation its costs of financing in an amount not to exceed 1.50% of the Senior Permanent Loan, plus an up-front commitment fee equal to 0.75% of the Senior Permanent Loan.

The Corporation will also charge the Borrower an annual servicing fee of at least 0.20% on the outstanding principal balance of the Senior Permanent Loan or other applicable fees.

LIIF will receive an origination fee equal to approximately 1.00% of the aggregate amount of the Senior Construction Loan.

Action by the Members

The Members are requested to approve the origination at closing of a participation loan in an amount not to exceed \$16,770,600, a participation agreement with LIIF pursuant to which LIIF will acquire a 100% participation interest in the Senior Construction Loan, and the execution by an authorized Officer of the Corporation of mortgage related documents and any other documents necessary to accomplish the participation.

The Members are being requested to approve i) the making of a Senior Permanent Loan in an aggregate amount not to exceed \$8,338,000, which may be initially funded with the Corporation's unrestricted reserves and reimbursed with taxable bonds or funded with available funds of the Open Resolution. Any issuance of taxable bonds will be presented to the Members for approval at the time for the permanent financing of East Village Homes, and ii) the execution by an Authorized Officer of the Corporation of mortgage related documents and any other documents necessary to accomplish the financing.

Exhibit A

East Village Homes Manhattan, New York

Project Location: 302 East 2nd Street
Block 372, Lot 49

HDC Program: Mix & Match

Project Description: This project consists of the new construction of a 14-story building consisting of 45 residential units and a 945 square foot community facility in the East Village and Alphabet City neighborhoods of Manhattan. Pursuant to the terms of the transaction, the HDC will purchase the property from the City of New York and convey a beneficial interest to a new entity comprised of AAFE, Inc. and an affiliate of Enterprise Community Partners.

Total Rental Units: 45 (including 1 superintendent's unit)

Apartment Distribution:

<u>Unit Size</u>	<u>No. of Units</u>
Studio	13
1 bedroom	19
2 bedroom	13
Total Units*	45

**Total Units is inclusive of 1 two-bedroom super's unit.*

**Expected HDC
Construction Financing Amount:** \$15,246,000

**Expected HDC
Permanent Financing Amount:** \$7,580,000

Credit Enhancement: REMIC (Permanent)

Owner: East Village Homes Owner LLC a single purpose entity controlled by Asian Americans for Equality, whose executive directors are Jennifer Sun and Thomas Yu and whose non-

profit board members are Heidie Joo Burwell, Jacqueline Huey, Peggy Chan, John Leo, Wendy Takahisa, Lydia Tom, Po Yuen and May Yu.

Developer:

Asian Americans for Equality, Inc. whose executive directors are Jennifer Sun and Thomas Yu and whose non-profit board members are Heidie Joo Burwell, Jacqueline Huey, Peggy Chan, John Leo, Wendy Takahisa, Lydia Tom, Po Yuen and May Yu.