NYC HDC

NEW YORK CITY
HOUSING DEVELOPMENT
CORPORATION

MEMORANDUM

To: The Chairperson and Members

From: Eric Enderlin
President

Date: November 20, 2018

Subject: Down Payment Assistance Fund Term Loan

I am pleased to recommend that the Members approve the use of the Corporation's unrestricted reserves to make an interest only 5-year Term Loan to the Down Payment Assistance Fund LLC ("DPAF") in an amount not to exceed $2.25 million, of which $1 million will occupy a top loss position. The DPAF is an initiative being led by the New York City Department of Housing Preservation and Development ("HPD") and the New York City Acquisition Fund LLC ("NYCAF") in coordination with the Robin Hood Foundation that will provide short term loans in order to enable non-profit entities to make down payments on a land purchase prior to the finalization of acquisition financing. Corporation staff is recommending this action as the investment will further HDC's goals for the creation of affordable housing in New York City. This memorandum will provide background to the proposal and a discussion of the economics, mechanics, and risks and mitigants.

Background

The Corporation's staff has been advised that nonprofit organizations seeking to develop supportive and affordable housing have difficulty securing unrestricted cash to make down payments on land purchases and, consequently, often lose sites to better-financed for-profit buyers that may intend to develop market rate housing. To address this issue, the Robin Hood Foundation is working with the NYCAF, Supportive Housing Network of NY (SHNNY), HPD and HDC to create the DPAF to help pre-qualified nonprofit developers to make deposits when attempting to purchase vacant land or vacant buildings for the purpose of creating new affordable and/or supportive housing under the existing loan programs offered by HDC and HPD. HPD is expected to release a Request for Qualifications (RFQ) by December, 2018 to begin the process of pre-qualifying borrowers for the fund. DPAF will offer unsecured short term loans to these borrowers that are repayable in full upon closing of acquisition financing. The goal is to begin the program in the fourth quarter of 2018 with a five-year fund capitalized with approximately $5.25 million (including the $2.25 million investment from HDC). Assuming a revolving pool in

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which the average loan term is expected to be four months, the DPAF could provide up to 32 loans in the five-year period for a total approximately exceeding $20 million. Thus enabling as much as $200,000,000 in site purchases by eligible borrowers.

New York City Down Payment Assistance Fund LLC (DPAF)

The Down Payment Assistance Fund will offer pre-qualified non-profits with short-term loans to make deposits on land purchases when they sign a purchase and sale agreement. Loans are expected to range in size from $250,000 to $1,000,000 (which is the maximum size). Loans from the DPAF will be limited to projects creating new, permanent supportive or affordable housing developments. The anticipated source of repayment for a DPAF down payment loan will be a subsequent acquisition loan underwritten by NYCAF or another capital source of the borrower's choosing. The legal structure of the DPAF is expected to be a stand-alone LLC that is legally distinct from the NYCAF, but with the owners and management functionally identical to the NYCAF. As with NYCAF, the Enterprise Community Partners and the Local Initiatives Support Corporation will be the joint Members/Owners and the fund manager will be the Forsyth Street Advisors.

New York City Acquisition Fund LLC (NYCAF)

The NYCAF offers acquisition, predevelopment and moderate rehabilitation loans to experienced, for-profit and not-for-profit real estate developers of affordable, supportive, and mixed income rental housing in the five boroughs of New York City. Its members are Enterprise Community Partners (50%) and the Local Initiatives Support Corporation (50%), and the Fund has been managed by Forsyth Street Advisors since its inception. Made possible through a partnership between the City of New York, major foundations and New York's public and private investment groups, the Fund provides loans at capital advance rates of up to 130% loan to value for non-profit borrowers with loan terms of up to 3 years and limited recourse.

On June 5, 2018, the Members approved the use of $15 million of the Corporation's unrestricted reserves to make a loan to NYCAF to increase its resources for acquisition and predevelopment loans to borrowers. Recipients of DPAF down payment loans are not required to use NYCAF for acquisition financing but it is expected that many will.

Mechanics and Economics

The Members are being asked to authorize the investment of $2.25 million of the Corporation's unrestricted reserves into the DPAF by December 10, 2018, of which $1 million will occupy a top loss position. The Members previously authorized $2.25 million in funds for a guaranty for an initiative named Preserving City Neighborhoods ("PCN") at its July 2013 meeting. PCN has been terminated as a program and the DPAF would be funded by a reallocation of such monies. No more than $500,000 of the $1 million investment that occupies a top-loss position may be attributed to a single loan. All other monies will be treated on a pari passu basis with other funders. The Corporation and other lenders to the DPAF will earn 1% interest, paid quarterly, for a term of five years. Further details can be found in the attached DPAF term sheet. Apart from HDC, the DPAF is being funded through foundation investments from the following funders:

Capital Source		Amount	Status
HDC		$2,250,000	Pending
Robin Hood		$1,000,000	Committed
Charles Revson Foundation		$500,000	Committed
Oak Foundation		$1,000,000	Committed
Deutsche Bank		Up to $500,000	In Progress
	Total	**$5,250,000**	

Risks and Risk Mitigation

The primary risks associated with the DPAF investment are repayment risk, top-loss guarantee risk and borrower risk. These risks and their mitigants are discussed below. The DPAF will provide to investors quarterly portfolio status reports on all loans made from the Fund, as well as an annual report on DPAF performance.

Repayment Risk
DPAF loans will be unsecured short term loans that will enable borrowers to make a down payment prior to purchasing a site, and will be repaid upon receipt of an acquisition loan. Loans will be underwritten by experienced NYCAF originating lenders, with an eye to confirming that sites meet the criteria for NYCAF acquisition loans and for HPD/HDC lending programs. The four originating lenders are the Corporation for Supportive Housing, the Enterprise Community Loan Fund, the Local Initiatives Support Corporation and the Low Income Investment Fund. The DPAF will be governed by a credit committee akin to the existing NYCAF credit committee and both HPD and HDC will have seats on the DPAF Credit Committee. The credit committee will assess construction financing takeout prospects for any DPAF loan prior to the making of any loan. The only recourse for non-payment of a DPAF loan will be the guarantee of the borrower. The maximum loan size for a given deal will be the lesser of 10% of the purchase price or $1 million. Developers will only be able to have one loan outstanding at any time.

Top-Loss Guarantee Risk
$1.25 million of HDC's investment will be lent on a pari passu basis with other lenders with identical risks and returns. $1 million of HDC's investment will occupy a top-loss position wherein, after a 180-day cure period on any one loan, up to $500,000 of this top loss guarantee would be lost before the rest of the DPAF lenders suffer losses. This commitment enables risk averse foundations to be able to make investments into the DPAF that might otherwise be too risky for foundations to take on.

Borrower Risk
Because the DPAF loans are unsecured, care is being taken to pre-qualify potential borrowers that have the capacity to make the guarantees required in order to take on a DPAF loan. A Request for Qualifications process will be administered by HPD, with special care taken to qualify only those high-capacity non-profits who meet the following criteria: 1) applicants must

have extensive property acquisition and a team with development experience, 2) applicants must have extensive portfolio management experience that are generally in compliance with all regulatory agreements and municipal obligations and 3) applicants must score highly on certain metrics designed to establish a generally high financial capacity. The financial metrics that are expected to be reviewed are: liquidity (cash and cash equivalents), current ratio, leverage (total liabilities/net assets), the value of unrestricted net assets, percentage net income to total revenue, revenue diversification, and the percentage of properties with positive cash flow.

Fees

The Corporation would receive an annual return equal to 1% of the $2.25 million loan amount, payable quarterly.

Action by Members

The Members are requested to approve the use of the Corporation's unrestricted reserves to make an interest only 5-year Term Loan to the Down Payment Assistance Fund LLC ("DPAF") in an amount not to exceed $2.25 million, of which $1 million will occupy a top loss position, and the execution by an authorized Officer of the Corporation of related documents and any other documents necessary to accomplish the this investment.

Attachments

A. Draft DPAF Term Loan Term Sheet

New York City Down Payment Assistance Fund (DPAF)

Proposed Term Sheet for Capital Funders

[updated 11.6.18]

This summary Term Sheet is provided for discussion purposes only and does not constitute a commitment to issue securities, to lend or an agreement to issue a commitment on these or any other terms or to arrange any financing and shall not create a binding or legally enforceable obligation of the Fund entity or the stakeholders defined below in any way. The terms contained herein are of a summary nature and are not all-inclusive.

Circular 230 Notice. Any U.S. tax advice contained herein is not intended or written to be used, and cannot be used, by any taxpayer for the purpose of avoiding U.S. tax penalties that may be imposed on the taxpayer; any such advice was written to support the promotion or marketing of the transactions described herein; and each taxpayer is therefore strongly urged to seek U.S. tax advice based on the taxpayer's particular circumstances from an independent tax advisor.

THE FUND:	With a projected February 2019 launch, the New York City Down Payment Assistance Fund ("DPAF") is a new capital resource designed to enable seasoned not-for-profit developers of supportive and affordable, low-income housing to move more rapidly into contract for vacant properties. DPAF will provide down payment loans for site acquisitions, with full recourse to the developer. Such a product represents a greater level of risk than traditional capital sources, accustomed to receiving collateral, are willing to support. DPAF will expect repayment of the full down payment loan amount at the closing of an acquisition loan. DPAF will be set up as an independent Limited Liability Company, jointly owned by Enterprise Community Partners ("Enterprise") and the Local Initiatives Support Corporation ("LISC"), who are Co-Members and Co-Managers of the New York City Acquisition Fund ("NYCAF"). Forsyth Street, NYCAF's Fund Manager, will oversee DPAF's daily operations. NYCAF has a 12-year track record of successfully deploying capital to projects that house low and very-low income households, including homeless and special needs populations. To date, NYCAF has lent over $415 million dollars to 71 affordable and supportive housing projects, generating new production or preservation of 12,360 units. With only one defaulted loan, NYCAF has recorded a cumulative default rate of 0.76%. The new entity is currently raising approximately $5 million from philanthropic and municipal sources as lending capital for this new product. DPAF will not be reliant on capital or credit enhancement from NYCAF, and will have its own separate governance and credit review process to originate loans. Additionally, lenders and funders of the new LLC will not have recourse to NYCAF or to Enterprise and LISC.
DPAF SUMMARY:	The Down Payment Assistance Fund will offer pre-qualified non-profits with short-term loans, to make deposits on land purchases when they sign a purchase and sale agreement. Such purchases must advance new production of permanent supportive housing residences, or affordable, low-income residences with specified set-asides for homeless, governed by NYC HPD term sheets. The anticipated source of repayment for a DPAF loan will be a subsequent acquisition loan underwritten by NYCAF or another capital source of the borrower's choosing.
DPAF Ownership:	DPAF will be established as a Limited Liability Company, whose Co-Members are Enterprise Community Partners (50%) and the Local Initiatives Support Corporation (50%).
FUND MANAGER:	Forsyth Street, NYCAF's Fund Manager, will be responsible for DPAF's day-to-day operations.

DPAF GOVERNANCE:	A Credit Committee consisting of one representative from HDC, one from HPD, and one or more of DPAF's initial funders will review and approve DPAF loan requests.
ORIGINATING LENDERS:	The DPAF will delegate its loan originations to the four current Originating Lenders from NYCAF, including the Corporation for Supportive Housing (CSH), Enterprise Community Loan Fund (ECLF), Local Initiatives Support Corporation (LISC), and Low Income Investment Fund (LIIF). DPAF borrowers would select one of these to underwrite their down payment loans, and the same for their subsequent acquisition loans (should they work with NYCAF on the latter.)
DPAF SOURCES OF CAPITAL:	The Down Payment Assistance Fund will be capitalized with below-market rate investments from NYC government and philanthropic investors that are willing to lend on an unsecured basis. After proof of concept, demonstrated demand, and initial success, the Fund Manager would expect to raise additional capital. As of November 13, commitments have been obtained from the Robin Hood Foundation ($1 million), Revson Foundation ($500,000), and Oak Foundation ($1 million).
ELIGIBLE PROJECT TYPES:	1. Vacant, privately owned sites or vacant buildings to construct permanent supportive rental housing; 2. Vacant, privately owned sites or vacant buildings to construct affordable low-income rental housing with homeless set-asides. 3. Vacant, privately owned sites or vacant buildings to construct mixed supportive and affordable rental housing.
ELIGIBLE SPONSORS:	**Pre-qualified, non-profit affordable housing developers** of permanently supportive or mixed supportive and affordable housing projects in New York City.
COLLATERAL:	Down Payment Loans will be unsecured.
RECOURSE:	Investments in the Down Payment Assistance Fund will be nonrecourse to the New York City Acquisition Fund LLC, DPAF, and DPAF's Co-Members, Enterprise Community Partners, Inc., and Local Initiatives Support Corporation. Funders will have recourse to non-profit borrowers through a repayment guarantee.
TERM:	5 years, with renewal at the discretion of the funders.
INTEREST RATE:	1%, paid quarterly
REPORTING:	1. **Investor Reporting.** Quarterly and annual reporting distributed 60 and up to 150 days respectively after the end of the respective reporting period. 2. **Project Level Reporting.** DPAF will provide quarterly portfolio status reports to the funders.