




NEW YORK CITY
HOUSING DEVELOPMENT
CORPORATION

MEMORANDUM

To: The Chairperson and Members

From: Richard Froehlich 
Acting President

Date: March 21, 2019

Subject: Approval of a Participation in the Baychester Murphy Construction Loan

I am pleased to recommend that the Members authorize the Corporation to enter into a loan agreement (the "Sub-Participation Agreement") with Citibank, N.A. ("Citibank") and utilize the Corporation's unrestricted reserves in an amount not to exceed \$49,995,000 to fund a portion of a taxable construction loan (the "Construction Loan") approved by the Members at the November 28, 2018 meeting.

Members are also asked to approve the changes to the attached November 20, 2018 Memo to Members ("Attachment A") which clarify that the Corporation may repurchase Citibank's 100% participation in the Construction Loan with the Corporation's unrestricted reserves after the completion of the rehabilitation instead of at the making of the Permanent Loan.

The Loan

On November 28, 2018, Members approved the Corporation to originate the Construction Loan in an amount not to exceed \$145,960,000 to finance a portion of the acquisition and rehabilitation of the Project and to enter into a participation agreement with Citibank pursuant to which Citibank acquires a 100% participation interest in such loan.

The Corporation is now seeking a one-third sub-participation interest in the Construction Loan in an amount not to exceed \$49,995,000 and the authorization to fund that sub-participation with the Corporation's corporate reserves. The Corporation will fund the Construction Loan simultaneously with Citibank and hold a pari-passu interest in the loan. The Construction Loan

bears interest at a variable rate, adjusted monthly and indexed from the 1-month LIBOR plus a 200 basis point spread. Corporation staff expects that the sub-participation will yield a higher risk adjusted return rate than other existing investment opportunities, to ultimately generate more resources for affordable housing production.

As described in the attached November 20, 2018 Memo to Members, the proceeds of the Construction Loan will be used by the Borrower, Cross Bronx Preservation LLC, for the purpose of rehabilitating a 722-unit multi-family rental housing development known as Baychester-Murphy (the "Project") consisting of fourteen (14) buildings located at two New York City Housing Authority ("NYCHA") owned properties in the Bronx. Construction monitoring will be performed by Hillman Consulting LLC and the Corporation will receive periodic construction completion updates. By participating in the Construction Loan the Corporation's engineers will play a role in reviewing the planned work and develop experience that will be helpful for future NYCHA preservation transactions.

Risks and Risk Mitigation

The primary risk associated with the construction loan sub-participation is the Borrower's potential inability to complete the rehabilitation or pay interest on the loan during the rehabilitation period. Corporation staff believes this risk is mitigated through conservative underwriting and financial structuring, a strong development team with relevant experience, and ongoing monitoring of the development during the rehabilitation period. Debt service payments are sized on the Project's current cash flow, as it is currently occupied and was approved for an increase in Section 8 contract payments. Further, the Borrower was required to provide a completion guaranty and a repayment guaranty limited to 10% of the loan amount. Additionally, the Borrower is required to prepay a portion of the loan in the event that the Project is unable to support the permanent loan debt service. Further, the contractor is L+M Builders Group LLC, which has extensive experience with the Corporation's portfolio projects as well as performing substantial rehabilitation and achieving operating efficiencies in this type of building stock.

Action by the Members

The Members are requested to authorize the Corporation to enter into the Sub-Participation Agreement, authorize the use of the Corporation's unrestricted reserves in an amount not to exceed \$49,995,000 to fund the sub-participation in the Construction Loan, and the execution by an authorized Officer of the Corporation of related documents and any other documents necessary to accomplish the participation.

In addition, Members are requested to authorize the attached changes to the November 20, 2018 Memo to Members which clarify that the Corporation may repurchase Citibank's 100% participation in the Construction Loan with the Corporation's unrestricted reserves after the completion of the rehabilitation instead of at the making of the Permanent Loan.

ATTACHMENT "A"



MEMORANDUM

To: The Chairperson and Members

From: Eric Enderlin
President

Date: November 20, 2018

Subject: Approval of a Participation Construction Loan and Approval of a Permanent Loan to be delivered to FFB for Baychester-Murphy

I am pleased to recommend that the Members approve the origination of a taxable construction loan (the "Construction Loan") in an amount not to exceed \$145,960,000 and a permanent loan to provide permanent financing for the Project defined herein in an amount not to exceed \$148,500,000 (the "Permanent Loan" and together with the Construction Loan, the "Loans"). The Construction Loan is anticipated to be originated by the Corporation and funded by Citibank, N.A. ("Citibank") through the completion of the rehabilitation and thereafter with the Corporation's unrestricted reserves. The Permanent Loan may be initially funded with the Corporation's unrestricted reserves, and is expected to be insured under the Corporation's Risk-Sharing program with the U.S. Department of Housing and Urban Development ("HUD") and sold to the Federal Financing Bank (the "FFB").

~~During the construction term,~~ Citibank is expected to have a 100% participation interest in the Construction Loan funded pursuant to a participation agreement between the Corporation and Citibank through the completion of the rehabilitation.

At permanent conversion, the Permanent Loan is expected to be sold to the FFB, a federal corporation under the supervision of the U.S. Department of the Treasury, as part of FFB's New Construction/Substantial Rehab Insured Upon Completion Program (referred herein as the "Forward FFB Execution"). The Members originally approved the Corporation's participation in the FFB Program and the use of the Risk- Sharing program for FFB in September 2014.

The Loans

The proceeds of the Construction Loan will be used by Cross Bronx Preservation LLC, a New York limited liability company (the "Borrower") for the purpose of acquiring and rehabilitating a 722-unit multi-family rental housing development known as Baychester-Murphy (the "Project") consisting of fourteen (14) buildings located at two New York City Housing Authority ("NYCHA") owned properties in the Bronx.

The Construction Loan is anticipated to be originated by the Corporation and, pursuant to a participation agreement, funded by Citibank in an amount not to exceed \$145,960,000 at a variable interest rate through the completion of the rehabilitation with an anticipated ~~construction~~ term of eighteen months.

The Permanent Loan is expected to have a 40-year term and an interest rate of 4.75%. The Permanent Loan will be used to acquire Citibank's participation interest in the Construction Loan and provide permanent financing for the Project in an amount not to exceed \$148,500,000. The Permanent Loan will be subsequently sold to the FFB. The Project will be developed under the Corporation's FFB Preservation Program.

Transaction History

Baychester-Murphy is comprised of two developments in a larger pool of public housing units owned by NYCHA that were originally financed by both the State of New York and New York City (the "State-City Developments"). The State-City Developments were constructed in the 1950s/1960s and were primarily financed by the proceeds of general obligation bonds issued by the State of New York and New York City. As these developments were not originally financed with Federal money, they were ineligible for Federal subsidy that provides both operating and capital subsidies for the vast majority of NYCHA's portfolio. Initially the City and State provided subsidy to pay bond debt service and operating costs, but these subsidies were discontinued in the 1990s, resulting in recurring structural deficits for NYCHA.

In February 2010, the Members approved the issuance of the Corporation's Multi-Family Housing Revenue Bonds 2010 Series A-1 and A-2 (the "2010 Series A Bonds") to "Federalize" a portfolio of eight public housing developments, including Baychester-Murphy, totaling 5,674 units in the State-City Development portfolio. The financing incorporated a mixture of financing sources including taxable bonds, recycled bonds, and Federal funds allocated to NYCHA under the American Recovery and Reinvestment Act of 2009 ("ARRA"). ARRA provided for a one time capital infusion for public housing developments transferred to a public-private partnership structure with the public housing authority serving as managing member. It also enabled NYCHA to access federal subsidy for a substantial portion of the State-City Developments not previously included in NYCHA's allocation of the federal operating and capital subsidy for public housing.

A portion of the issuance was used for limited, emergency capital repairs at Baychester-Murphy with the scope of work including remedial structural and exterior repairs, with minimal investment in interior conditions.

As part of the transaction currently presented for approval, the Baychester-Murphy Project will be released from the mortgages securing the 2010 Series A Bonds.

Project Description

The Project is comprised of 722 units across fourteen (14) buildings on two scattered sites in the Tremont and Edenwald neighborhoods of the Bronx.

Fee title to the Project is currently held by NYCHA. Upon Construction Loan closing it is expected that NYCHA will enter into a ground lease with the Borrower, of which NYCHA will hold a 50% ownership interest.

The Project consists of 274 one-bedroom units, 285 two-bedroom units, 139 three-bedroom units, 19 four-bedroom units, 3 five-bedroom units and two non-revenue generating two-bedroom units set aside for superintendents. The Project also contains one non-revenue generating 15,700 square foot senior center operated by a third party not-for-profit organization, as well as a 5,050 square foot revenue producing childcare facility. The Project will be reserved for households earning no more than 50% of Area Median Income ("AMI") which is currently \$46,950 for a family of three. Existing tenants will be allowed to remain in residence regardless of AMI level, but upon vacancy, units will be rented to households earning no more than 50% AMI. As of June 1, 2018, the Project was 99% occupied with a majority of households earning below 50% AMI.

The Project currently receives subsidy from two project-based Section 8 Housing Assistance Payments Renewal Contracts (each a "HAP Contract") with HUD. There is one HAP Contract for each site, and both were renewed in 2010 and have a co-terminus expiration date of March 16, 2025. They are expected to be extended for an additional 25-year term at closing. Pursuant to a commitment from NYCHA, all 722 units are eligible to receive subsidy under the HAP Contracts. All incoming new tenants must have incomes at or below 50% of AMI (as adjusted for family size) in order to receive subsidy. Existing tenants must have incomes at or below 80% of AMI (as adjusted for family size) in order to receive subsidy.

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, with low flow fixtures and high efficiency appliances; interior hallway lighting, flooring, wall improvements and new doors; community center expansion and rehabilitation; mechanical and electrical upgrades; window replacements; roof repair and façade re-cladding; and conversion of passive outdoor areas to landscaped, green seating and play areas for residents.

In addition to income restrictions under the HAP Contracts, 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 remain in effect for as long as the Permanent Loan is outstanding and for a minimum of forty (40) 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

In September 2017, NYCHA issued a request for proposal for a co-developer partner for the Project along with six other similar developments. The developer selected by NYCHA for the Project is a joint venture between entities controlled by Camber Property Group ("CPG"), L+M Development Partners ("L+M") and MBD Community Housing Corporation ("MBD" and collectively, the "Development Team"). NYCHA will enter into an operating agreement with the Development Team detailing the share of development fee and cash flow to be shared among the parties. The Borrower will be Cross Bronx Preservation LLC. The membership of the Borrower will be comprised of the 50% owner and managing member, Cross Bronx Preservation Manager LLC, of which Camber, L+M and MBD entities are 33.33% managing members. NYCHA holds a 50% ownership stake in the borrower entity through an entity created by it named NYCHA Cross Bronx Preservation Housing Development Fund Corporation.

CPG will act as a co-developer of the development team and its principals were previously employed at L+M with extensive experience in the development, construction and ownership of affordable and mixed income multifamily housing throughout all five boroughs. To date the Corporation has financed four developments with CPG comprising of 1,623 units and over \$162 million in senior loans.

L+M will act as the co-developer and general contractor on this project. L+M is a diversified construction and development company which has been actively developing residential and mixed-use real estate in New York City since 1984 and during that time has developed or preserved over 15,000 units of affordable and market rate housing in the tri-state area. To date the Corporation has financed 42 developments totaling more than 6,800 units with entities controlled by L+M.

MBD will also act as a co-developer on this project. MBD is a local not for profit in the Crotona Park East section of the Bronx, founded in 1974 to combat the overwhelming incidents of arson, disinvestment, abandonment, and population loss in that area. Owning 39 buildings and 1,200 housing units, MBD has been instrumental and has served as a catalyst in the development of a revitalization plan to restore necessary public services, renovate abandoned buildings and develop new housing to repopulate the surrounding Bronx neighborhood.

The guarantor of certain obligations under the loan documents is expected to be L+M.

The Borrower will enter into a 99-year ground lease with NYCHA, which will be executed at or prior to the Construction Loan closing.

At the Construction Loan closing, C+C Management, an entity controlled by L+M, will replace NYCHA as property management at all fourteen buildings. All existing NYCHA management employees will be relocated to other NYCHA developments.

Structure and Security of FFB Permanent Loan

At permanent conversion, the Construction Loan will be repaid by the Permanent Loan that will be structured as a senior mortgage loan secured by a leasehold mortgage. The Permanent Loan is expected to be enhanced with mortgage insurance arranged by the Corporation under its Risk-Sharing agreement with HUD. It is expected that the Corporation will assume 50% of the default risk, which is a requirement for participation in the FFB program.

On or after permanent conversion, FFB is expected to purchase a beneficial ownership interest in the Permanent Loan. FFB will receive a purchaser pass-through rate established by FFB, which will not exceed the interest rate on the Permanent Loan and is expected to approximate the rate that the market is then providing on a comparable Ginnie Mae security.

In the event the permanent conversion occurs prior to the purchase of the Permanent Loan by FFB, the Permanent Loan may be initially funded with the Corporation's unrestricted reserves.

Purchase of Interest Rate Swap

The Loan will be the third loan to be executed under the FFB's New Construction/Substantial Rehab Insured Upon Completion Program (the "Forward FFB Execution"). The interest rate to be established by FFB for this transaction will not be determined until a date within two months of delivery of the permanent FHA-insured loan. To protect against interest rate volatility associated with the Forward FFB Execution during the approximately eighteen month construction period, the Corporation expects to purchase a LIBOR-indexed interest rate swap from a qualified interest rate provider. It is expected that the interest rate swap will be an eighteen month forward starting swap to be set at an anticipated rate of 2.70% based on the current market. If the interest rate environment were to trend upwards over the next eighteen months and the LIBOR swap rates increased above the hedge rate, the swap counter party would be obligated to pay the Corporation if the swap were terminated. This payment would offset the upward movement that would also likely occur in the rate established by FFB. If the interest rate environment were to trend downwards over the next two years and the LIBOR swap rates decreased below the hedge rate, the Corporation would be obligated to pay the swap counter party if the swap were terminated. In addition, to the interest rate volatility risk, there is basis risk since the FFB rate will be tied to the Federal government's cost of capital as calculated by FFB staff on a daily basis and the swap will be LIBOR-indexed. In a lower interest rate environment, the interest rate volatility risk and the basis risk are mitigated by two factors: 1) the Corporation can choose to keep the swap outstanding and use the swap to hedge the Corporation's outstanding LIBOR-indexed variable rate debt under the Corporation's Open Resolution and 2) the Corporation will be able to lock in a lower rate with FFB on the Permanent Loan.

Risks and Risk Mitigation

The primary risk associated with the Permanent Loan is a payment default by the borrower. The Corporation's staff believes that this risk is mitigated by the Risk-Sharing mortgage insurance,

strict underwriting, the Borrower's history in constructing, operating and managing similar projects, and the Corporation's ongoing asset management and monitoring of the development. The Corporation will be obligated to cover 50% of the total loss following a claim on the Risk-Sharing mortgage insurance. Corporation staff believes this is an acceptable risk given the favorable terms of the FFB financing.

Fees

The Borrower will be obligated to pay the Corporation its costs of financing for FFB financing in an amount not to exceed 1.50%, plus an up-front commitment fee equal to .75% of the Permanent Loan.

The Borrower will pay the fees of bond counsel, if any, and the custodian, plus any additional funds that are required to compensate the Corporation for its management of the Loan.

The Corporation will also charge the Borrower an annual servicing fee of at least 0.20% on the outstanding principal balance of the Permanent Loan or other applicable fees. The Corporation will receive an upfront premium and an ongoing premium of .375%, which is the Risk-Sharing mortgage insurance premium paid by the Borrower and included in the interest rate.

Citibank will receive an origination fee equal to approximately .85% of the aggregate amount of the Construction Loan.

FFB Custodian

U.S. Bank

Bond Counsel

Hawkins Delafield & Wood LLP

Hedge Advisor

Mohanty Gargiulo

Action by the Members

The Members are requested to approve the origination at Construction Loan closing of a participation loan in an amount not to exceed \$145,960,000 to finance a portion of the acquisition and rehabilitation of the Project and a participation agreement with the Citibank pursuant to which the Citibank will acquire a 100% participation interest in such loan, and which may be financed with the Corporation's unrestricted reserves after the completion of rehabilitation and prior to the making of the Permanent 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 Permanent Loan in an aggregate amount not to exceed \$148,500,000, which may be initially financed with the Corporation's unrestricted reserves, for the permanent financing of Baychester-Murphy, and ii) the execution by an Authorized Officer of the Corporation of mortgage related documents and any other documents necessary to accomplish the financing.

Members are requested to approve the execution by the President or any Authorized Officer of the Corporation of any and all documents necessary to enter into an interest rate swap agreement.

Exhibit A

Baychester-Murphy Bronx, New York

Project Location:

Campus, Building Number, Address	Block	Lot
Baychester #1: 1225 E 225th Street, 1860 & 1870 Schieffelin Avenue	4905	360
Baychester #2: 1880 Schieffelin Avenue	4905	360
Baychester #3: 1890 Schieffelin Avenue	4905	360
Baychester #4: 1920 Schieffelin Avenue	4905	360
Baychester #5: 1930 Schieffelin Avenue	4905	360
Baychester #6: 1900 & 1910 Schieffelin Avenue	4905	360
Baychester #7: 1861 Schieffelin Place	4905	360
Baychester g #8: 1881 Schieffelin Place	4905	360
Baychester #9: 1851 Schieffelin Place	4905	360
Baychester #10: 1871 Schieffelin Place	4905	360
Baychester #11: 1891 Schieffelin Place	4905	360
Baychester #12: 1220 East 229 th Street	4905	360
Murphy #1: 1805 & 1807 Crotona Avenue	2944	1
Murphy #2: 1811 Crotona Avenue, 601, 611, and 615 Crotona Park North	2944	1

HDC Program:

FFB Preservation Pilot Program

Project Description:

This project consists of 722 units in fourteen buildings currently owned, managed, and operated by NYCHA in the Baychester and East Tremont neighborhoods of the Bronx. Pursuant to the terms of the transaction, NYCHA will enter into a ground lease and convey a beneficial interest to a new entity comprised of the development team and NYCHA. The scope of work will consist of, but not be limited to mechanical and electric systems upgrades, roof and brick repair, apartment modernization including kitchen and bathroom replacements, and lobby and common area upgrades. Total project square footage is approximately 739,775 gross square feet.

Total Rental Units:

722 (including 2 superintendent's units)

Apartment Distribution:

<u>Unit Size</u>	<u>No. of Units</u>
1 bedroom	274
2 bedroom	287
3 bedroom	139
4 bedroom	19
<u>5 bedroom</u>	<u>3</u>
Total Units*	722

**Total Units is inclusive of 2 two-bedroom super's units.*

Expected HDC

Construction Financing Amount:

\$125,000,000

Expected HDC

Permanent Financing Amount:

\$132,000,000

Credit Enhancement:

HUD FHA Risk Share 50/50 (Permanent)

Owner:

Cross Bronx Preservation LLC a single purpose entity jointly controlled New York City Housing Authority, L&M Development Partners, Inc. (Ron Moelis, Sandy Lowenthal), Camber Property Group (Rick Gropper, Andrew Moelis, Ron Moelis), and MBD Community Housing Corporation (Board of Directors: Wallace E. Mobley, Chairperson James E. Shipp, Treasurer, Phyllis Williams, Secretary, Carmen Silva, Florence Blanchard, April Horton, Derrick A. Lovett, non-voting member)

Developer:

Camber Property Group, whose principals are Rick Gropper, Andrew Moelis and Ron Moelis

L+M Development Inc. whose principals are Ron Moelis and Sandy Lowenthal

MBD Community Housing Corporation., whose Board of Directors consists of Wallace E. Mobley, Chairperson James E. Shipp, Treasurer, Phyllis Williams, Secretary, Carmen Silva, Florence Blanchard, April Horton, Derrick A. Lovett, non-voting member.