NEW YORK CITY
HOUSING DEVELOPMENT
CORPORATION

M E M O R A N D U M

To: The Chairperson and Members

From: Eric Enderlin
President

Date: September 28, 2021

Re: Approval of a Co-Lending Construction Loan and a Permanent Loan for PACT Williamsburg Houses

I am pleased to recommend that the Members approve the origination of a construction loan (the "Construction Loan") in an amount not expected to exceed $361,944,000 and a permanent loan (the "Permanent Loan" and together with the Construction Loan, the "Loans") in an amount not expected to exceed $374,770,000 for the acquisition, rehabilitation and permanent financing of the PACT Williamsburg Houses development (the "Project").

During the construction period, JPMorgan Chase Bank, N.A. ("Chase") is expected to purchase approximately two thirds of the Construction Loan. Chase's interest in the Construction Loan will be funded pursuant to a participation agreement between the Corporation and Chase. The Corporation's retained share of the Construction Loan, in an amount not expected to exceed $120,648,000, is expected to be funded with available funds in the Multi-family Housing Revenue Bonds Bond Resolution (the "Open Resolution") and/or the Corporation's unrestricted reserves. The Corporation's expected funding of the Construction Loan is further described in the memorandum entitled "Multi-Family Housing Revenue Bonds, 2021 Series I and J; and Approval of Mortgage Loans" to be presented to the Members concurrently herewith.

The Permanent Loan 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"), a federal corporation under the supervision of the U.S. Department of the Treasury. The Loans will provide construction and permanent financing for the Project defined herein. The Permanent Loan will be sold to the FFB as part of FFB's newly reauthorized 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.

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 Loan proceeds will be used by Williamsburg PACT LLC, a New York limited liability company (the "Borrower" or "Owner") to finance the acquisition, rehabilitation, and permanent financing of the Project. The Project consists of the conversion of 1,621 units in 20 tenant-occupied New York City Housing Authority ("NYCHA") public housing buildings to Section 8 supported multi-family housing in Brooklyn, as further 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.

The Construction Loan is anticipated to be originated by the Corporation and funded by both the Corporation and Chase in an amount not expected to exceed $361,944,000 at a variable interest rate set as a spread to LIBOR with an anticipated term of 42 months.

The Permanent Loan is expected to have a 40-year term, a 40-year amortization schedule, and an interest rate of 4.50%. The Permanent Loan will be used to repay the Construction Loan and provide permanent financing for the Project in an amount not expected to exceed $374,770,000. The Permanent Loan will be subsequently sold to the FFB and will be insured through the Corporation's FHA Risk Share Program.

Project Description

The Project is comprised of 1,621 units across 20 buildings in the East Williamsburg neighborhood of Brooklyn.

Ten percent of total units (161 units) will convert to Section 8 through HUD's RAD program. RAD is designed by HUD to be "cost neutral" and simply shifts federal public housing operating and capital subsidy into a federal Section 8 rental subsidy contract. Given that public housing subsidies are dwindling, RAD rents are significantly lower than Fair Market Rent ("FMR").

The remaining 1,458 units will convert to Section 8 through the Section 18 disposition process which accesses Tenant Protection Vouchers ("TPVs") with FMR rents for 100% of such units. To qualify for 100% Section 18 and corresponding TPVs, a property must meet HUD's definition of "obsolescence". This development is expected to meet the required threshold.

Pursuant to the Section 8 contracts, the Project will be reserved for households earning no more than 50% of Area Median Income ("AMI") which is currently $59,650 for a family of four. The Project is approximately 93% occupied, with a majority of households earning below 50% of AMI. Approximately 5% of the existing tenants (76 families) are expected to be over-income but will be allowed to remain in residence. Upon vacancy, units will be rented to households earning no more than 50% of AMI. 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 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 ground lease and for a minimum of forty (40) years from the date of the loan (the "Occupancy Restriction Period"). The Project will go through a substantial rehabilitation of its 1,621 units that will address a 20-year capital need, 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 bathrooms; new flooring and painting; new hydronic heating systems consisting of energy efficient boilers and hot water heaters; upgrades to the buildings' piping systems; window replacements; roof replacement; façade restoration; broadband infrastructure installation; exterior site work and recreational facility upgrades; and lead testing and abatement.

Unlike in previous PACT transactions, the extensive scope of work will require residents to temporarily relocate to hospitality units within the Property, for up to eight weeks. As construction nears completion, the hospitality units will be returned to normal service for occupancy.

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

<u>Historic Tax Credits</u>

Chase Community Equity, LLC, a subsidiary of Chase will be the Historic Tax Credit Equity investor ("HTC Investor"), and is expected to invest a total of approximately $134.1 million in exchange for Federal Historic Tax Credits ("FHTC") and State Historic Tax Credits ("SHTC", collectively the "HTCs"). The buildings in the Project qualify for HTCs, because they are individually listed on the National Register of Historic Places.

The transaction will be structured to include an HTC pass-through master lease between the Borrower and the Master Tenant (as hereinafter defined) (the "HTC Master Lease"). Through this structure, equity flows from the HTC Investor into the Property and the HTC Investor receives certain payments from cash flow. Once the Property is placed in service, the Master Tenant will operate the Property, receive rent, and make rent payments back to the Borrower, which are sufficient to cover the financing and economic requirements of the Borrower, including mortgage payments, replacement reserves, insurance, and distributions. In addition, the Master Tenant will also own a small percentage of the Borrower.

The Corporation will enter into a Subordination, Non-Disturbance and Attornment Agreement with regard to the HTC Master Lease that preserves certain enforcement rights but prevents 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. In addition, the Corporation expects to engage a special servicer who will facilitate preserving the HTCs while also protecting the Corporation's interests in certain default scenarios.

<u>Borrower and Developer Description</u>

In September 2019, NYCHA issued a request for proposal for a co-developer partner for the Project. The developer selected is RDC Development, LLC, a joint venture between entities controlled by MDG Design and Construction and Wavecrest Management (the "Development Team").

It is expected that a recently formed entity, Williamsburg PACT LLC ("Borrower"), will be the borrower on the Construction and Permanent Loans and receive the beneficial leasehold ownership interests in the Project and Property. The managing member of the Borrower is Williamsburg Houses Manager LLC ("Managing Member"); and the non-managing member of the Borrower is Williamsburg Houses Master Tenant LLC ("Master Tenant"), whose managing member is also Williamsburg Houses Manager LLC. The Borrower will split ownership of the Managing Member, with 40% and managing member control rights in the Managing Member owned by the Development Team as ("RDC Williamsburg LLC"), and 60% ownership by a joint venture between NYCHA and the New York City Housing Partnership, resulting in NYCHA having a 79% interest in the non-managing member of the Managing Member. In the Managing Member's joint venture operating agreement, MDG Design and Construction will agree to provide day-to-day decision making; and NYCHA will receive various financial benefits, including an acquisition payment, development fee, and cash flow. NYCHA will maintain certain control and decision rights by retaining the aforesaid fee ownership of the land and by acting as a member of the Borrower entities described above.

While NYCHA will retain fee ownership of the property, the Borrower will be the beneficial lessee under a 99-year NYCHA ground lease. Wavecrest Management will take over property management responsibilities for the portfolio.

NYCHA will guarantee certain resident protections, including automatic lease renewal, succession rights, and the right to a hearing to resolve grievances. In addition, residents will pay no more than 30% of their incomes towards rent, with the balance covered by Section 8.

The general contractor of the rehabilitation work will be a subsidiary of MDG Design & Construction.

Structure and Security of Construction Loan

The Construction Loan will be a senior mortgage loan secured by a leasehold mortgage. At Construction Loan closing, the Corporation will enter into a participation agreement with Chase which will obligate Chase to fund approximately two thirds of the Construction Loan and include customary co-lending terms. The Corporation's funding of the Construction Loan is further described in the memorandum entitled "Multi-Family Housing Revenue Bonds, 2021 Series I and J; and Approval of Mortgage Loans" to be presented to the Members concurrently herewith.

Chase will service the loan and will monitor construction through a third-party monitor, anticipated to be KOW Building Consultants. The third-party monitor will complete an upfront Plan and Cost Review in addition to ongoing construction monitoring reports. The Corporation will rely on the expertise of the lender's construction monitor. MDG will provide a completion guaranty as well as 100% Payment and Performance Bonds.

Structure and Security of FFB Permanent Loan

At permanent conversion, the Construction Loan will be repaid by the Permanent Loan. The Permanent Loan 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 through this program.

On or after permanent conversion, FFB is expected to purchase a beneficial ownership interest in the Permanent Loan. FFB will receive a 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.

Risks and Risk Mitigation

The primary risks associated with the Project are (1) construction completion risk; and (2) payment default by the Borrower. Corporation staff believes these risks are mitigated by several factors. Construction completion risk is mitigated by the Development Team's experience renovating similar rehabilitation projects; the completion guaranty to be provided by MDG, 100% Payment and Performance Bonds provided by MDG; and the third-party construction monitoring overseen by Chase. Payment default risk is mitigated by the Section 8 contract payments, the Development Team's history in operating and managing similar projects, conservative underwriting incorporating low loan-to-value ratios, and strong debt service coverage and income to expense ratios, the Corporation's ongoing asset management and monitoring of the development, and the Risk Sharing mortgage insurance. The Corporation will be obligated to cover 50% of the total loss following a claim on the Risk Sharing mortgage insurance. Corporation staff believes these are all acceptable risks.

Managing Interest Rate Volatility

The Permanent Loan will be executed under the Forward FFB Execution, which was suspended in 2019 and reauthorized in September 2021. The Permanent Loan interest rate will not be established until permanent conversion. The Corporation expects to use a multi-faceted portfolio hedging approach to protect against interest rate volatility associated with this forward commitment. Currently the Corporation has certain existing interest rate swaps purchased in connection with its previous forward financing commitments. If interest rates remain low and the Corporation is able to fulfill most of its forward commitments at a favorable cost of funds, these interest rate swaps may become available, and can be repurposed to provide effective hedging against the Corporation's new forward commitments. Working with its Hedge Advisor, Mohanty Gargiulo LLC, the Corporation has reviewed its portfolio-wide interest rate risks and determined that a combination of its existing hedging portfolio and the spread built into the anticipated rate of the Permanent Loan provide enough protection from interest rate movements for this forward commitment. In the event the rate environment changes inordinately and requires the purchase of additional hedging instruments, the proposed terms of the new interest rate hedging instruments will be presented to the Members for approval.

Deposits and Fees

The Borrower will pay the Corporation its costs of financing in an amount not to exceed 1% plus an up-front commitment fee equal to 0.75% of the Mortgage Loans.

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

The Borrower will pay Chase an up-front origination fee equal to .60% of the Construction 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. The Borrower will also pay a required FFB Deposit equivalent to two months' principal and interest payments.

FFB Custodian

To be determined.

Hedge Advisor

Mohanty Gargiulo

Action by the Members

The Members are requested to authorize (a) the financing of a Construction Loan for the Project, in an amount not expected to exceed $361,944,000; (b) the sale of approximately two thirds of the Construction Loan to Chase through a participation agreement; (c) the funding of the Corporation's retained share of the construction loan, in an amount not to expected to exceed $120,648,000, with available funds the in the Open Resolution and/or the Corporation's unrestricted reserves; and (d) the execution by an Authorized Officer of the Corporation of mortgage-related documents and any other documents necessary to accomplish the financing.

The Members are requested to approve i) the making of a Permanent Loan in an aggregate amount not to exceed $374,770,000, which may be initially financed with the Corporation's unrestricted reserves until purchase of the Loan by the FFB, for the permanent financing of the Project, 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

PACT Williamsburg Houses
Brooklyn, New York

Project Location:

Building 1 - 178 Leonard Street (BK 3024 1):
87 Ten Eyck Walk
89 Ten Eyck Walk
92 Maujer Street
90 Maujer Street
94 Maujer Street
91 Ten Eyck Walk
93 Ten Eyck Walk
95 Ten Eyck Walk

Building 2 - 108 Maujer Street (BK 3024 1):
109 Ten Eyck Walk
110 Maujer Street
108 Maujer Street
114 Maujer Street
112 Maujer Street
111 Ten Eyck Walk
113 Ten Eyck Walk

Building 3 - 101 Stagg Walk (BK 3024 1):
90 Ten Eyck Walk
92 Ten Eyck Walk
101 Stagg Walk
99 Stagg Walk
97 Stagg Walk

Building 4 - 125 Stagg Walk (BK 3024 1):
110 Ten Eyck Walk
112 Ten Eyck Walk 114 Ten Eyck Walk
123 Stagg Walk
125 Stagg Walk
Building 5 - 93 Scholes Street (BK 3024 1):
88 Stagg Walk
95 Scholes Street
93 Scholes Street
91 Scholes Street
101 Scholes Street
99 Scholes Street
97 Scholes Street

Building 6 - 106 Stagg Walk (BK 3024 1)
106 Stagg Walk
108 Stagg Walk 110 Stagg Walk 111 Scholes Street
115 Scholes Street 113 Scholes Street
112 Stagg Walk
114 Stagg Walk
Building 7 - 123 Ten Eyck Walk (BK 3025 46):
123 Ten Eyck Walk
125 Ten Eyck Walk
126 Maujer Street
124 Maujer Street
128 Maujer Street
127 Ten Eyck Walk
129 Ten Eyck Walk

131 Ten Eyck Walk

Building 8 - 143 Ten Eyck Walk (BK 3025 46):
143 Ten Eyck Walk
145 Ten Eyck Walk
144 Maujer Street
142 Maujer Street
146 Maujer Street
147 Ten Eyck Walk
149 Ten Eyck Walk
151 Ten Eyck Walk

Building 9 - 160 Maujer Street (BK 3026 1):
161 Ten Eyck Walk
163 Ten Eyck Walk
162 Maujer Street
160 Maujer Street
164 Maujer Street
165 Ten Eyck Walk
167 Ten Eyck Walk
169 Ten Eyck Walk
250-254 Graham Avenue
248 Graham Avenue
246 Graham Avenue
244 Graham Avenue
242 Graham Avenue
240 Graham Avenue
238 Graham Avenue

Building 10 - 176 Maujer Street (BK 3026 1):
183 Ten Eyck Walk
180 Maujer Street
178 Maujer Street
182 Maujer Street
184 Maujer Street
185 Ten Eyck Walk
187 Ten Eyck Walk

Building 11 - 164 Ten Eyck Walk (BK 3026 1):
164 Ten Eyck Walk
166 Ten Eyck Walk
168 Ten Eyck Walk
169 Stagg Walk
181 Stagg Walk
222 Graham Avenue

Building 12 - 188 Ten Eyck Walk (BK 3026 1):
186 Ten Eyck Walk
188 Ten Eyck Walk
190 Ten Eyck Walk
197 Stagg Walk
199 Stagg Walk

Building 13 - 214 Graham Avenue (BK 3026 1):
160 Stagg Walk
165 Scholes Street
163 Scholes Street
161 Scholes Street
167 Scholes Street
169 Scholes Street
171 Scholes Street
214 Graham Avenue

212 Graham Avenue
210 Graham Avenue
208 Graham Avenue
202-206 Graham Avenue

Building 14 - 180 Stagg Walk (BK 3026 1):
181 Scholes Street
182 Stagg Walk
180 Stagg Walk
178 Stagg Walk
186 Stagg Walk
184 Stagg Walk
183 Scholes Street
185 Scholes Street

Building 15 - 196 Maujer Street (BK 3027 1):
197 Ten Eyck Walk
199 Ten Eyck Walk
198 Maujer Street
196 Maujer Street
200 Maujer Street
201 Ten Eyck Walk
203 Ten Eyck Walk
205 Ten Eyck Walk

Building 16 - 134 Bushwick Avenue (BK 3027 1):
219 Ten Eyck Walk
216 Maujer Street
214 Maujer Street
220 Maujer Street
218 Maujer Street
221 Ten Eyck Walk
223 Ten Eyck Walk
122-138 Bushwick Avenue

Building 17 - 200 Ten Eyck Walk (BK 3027 1):
200 Ten Eyck Walk
202 Ten Eyck Walk
211 Stagg Walk
213 Stagg Walk
215 Stagg Walk

Building 18 - 222 Ten Eyck Walk (BK 3027 1):
222 Ten Eyck Walk
224 Ten Eyck Walk
226 Ten Eyck Walk
233 Stagg Walk
235 Stagg Walk

Building 19 - 195 Scholes Street (BK 3027 1):
196 Stagg Walk
199 Scholes Street
197 Scholes Street
195 Scholes Street
201 Scholes Street
203 Scholes Street
205 Scholes Street

Building 20 - 219 Scholes Street (BK 3027 1):
215 Scholes Street
218 Stagg Walk
216 Stagg Walk

	214 Stagg Walk 222 Stagg Walk 220 Stagg Walk 217 Scholes Street 219 Scholes Street 172 Bushwick Avenue 176 Bushwick Avenue 178 Bushwick Avenue Building 21 - 195 Graham Avenue (BK 3025 70): Community center
HDC Program:	NYCHA PACT
Project Description:	The project consists of the substantial rehabilitation of 20 walk-up 4 and 5-story buildings containing 1621 residential units in the East Williamsburg neighborhood of Brooklyn. 100% of the units will be converted from Section 9 Public Housing to Section 8 Project-Based Vouchers and will be affordable to households earning no more than 50% of AMI.
Total Rental Units:	1619 (plus two units for superintendents)
Apartment Distribution:	

Unit Size	No. of Units
Studio	1
1 bedroom	811
2 bedroom	733
3 bedroom	69
4 bedroom	4
5 bedroom	3
Total Units*	1,621

* Total Units are inclusive of two superintendent units

Expected Construction Financing Amount:	$329,040,000, of which $219,360,000 will be funded by JPMorgan Chase Bank, N.A. and $109,680,000 will be funded by HDC.
Expected Permanent Financing Amount:	$340,700,000
Expected HDC Subordinate Mortgage:	N/A
Expected Total Development Cost:	$675,576,934
Owner:	Williamsburg PACT LLC, whose ownership is comprised of Williamsburg Houses Manager LLC as managing member, comprised of NYCHA PACT LLC, and RDC Williamsburg LLC, comprised of MDG Design & Construction, whose principals are Nicola DeAcetis, Michael T. Rooney, Sr., Matthew Rooney, and Michael T. Rooney, Jr., and Wavecrest Management, whose principals are Frederick Camerata, Susan Camerata, and Joseph Camerata.
Developer:	MDG Design & Construction and Wavecrest Management.
Credit Enhancer:	Construction – Unenhanced Permanent – HUD FHA Risk Share 50/50