



NEW YORK CITY  
HOUSING DEVELOPMENT  
CORPORATION

**MEMORANDUM**

**To:** The Chairperson and Members

**From:** Eric Enderlin *E.E.*  
President

**Date:** November 21, 2023

**Subject:** New York City Acquisition Fund ("NYCAF") Additional Senior Term Loan

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**Proposal**

I am pleased to recommend that the Members authorize the use of the Corporation's unrestricted funds to make an interest-only Senior Term Loan to New York City Acquisition Fund LLC ("NYCAF" or "Fund") in an amount not to exceed \$10 million in order to facilitate a further increase in the volume of loans generated by NYCAF in support of Minority- and/or Women-Owned Business Enterprises ("MWBE") and non-profit developers as they seek to acquire property for affordable housing transactions. Please see the attached draft NYCAF Senior Term Loan term sheet for further detail.

**Background**

NYCAF offers acquisition, predevelopment and moderate rehabilitation loans to MWBE and not-for-profit real estate developers of affordable, supportive, and mixed income rental housing in the five boroughs of New York City. Its co-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 an unprecedented 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 ("LTV") ratio for MWBE and non-profit borrowers with loan terms of up to 3 years and limited recourse.

In May of 2018, in support of the Mayor's Housing New York 2.0 plan and its goal of doubling the size of the NYCAF to \$275 million in order to allow NYCAF to expand its ability to serve MWBE and non-profit developers, HDC provided a \$15 million 5-year revolving loan at a 2.15% rate to NYCAF. This loan was modified in 2021 to have a maturity in December 2026. Since the making of the loan, NYCAF has successfully expanded its lending, providing 25 new loans with \$235 million in capital while focusing its new lending exclusively on MWBE and non-profit sponsors.

Starting in 2023, a number of factors are combining that are causing average loan sizes to increase, and this is driving the NYCAF request for an additional loan from HDC. These factors are as follows:

- (1) MWBE and non-profit sponsors are eligible for 130% loan-to-value (“LTV”) ratios on loans with NYCAF. This has driven loan sizes up and has resulted in rising demand for loan capital overall, with oversubscription of potential loans versus available capital.
- (2) NYCAF has seen elevated acquisition costs (both due to larger sites and higher per square foot rates due to market conditions) and increasing predevelopment budgets (driven in part by the need for more NYCAF interest, which follows the variable Secured Overnight Financing Rate (“SOFR”).

The frequency of loan requests approaching or exceeding \$20 million is well above historic norms. The extra borrowing above 100% LTV that NYCAF permits fills a gap that would be hard to fill out-of-pocket for many developers, especially those in the emerging phase of growth. Bringing on additional balance sheet lending capacity will enable NYCAF to move forward with certain transactions that are currently not in NYCAF’s pipeline due to capacity constraints.

HDC’s funding as a Senior Term Lender is particularly important to expanding lending by NYCAF, as NYCAF must comply with a 2:1 leverage ratio of Senior Term Debt (including HDC’s) to Subordinate Capital (the total of Mezzanine Loans, the City of New York/HPD’s Battery Park City Trust Fund Loan, and NYCAF Equity). When combined, these sources represent the Fund’s balance sheet, which gets leveraged with Senior Secured funding from banks in order to make NYCAF loans. NYCAF has had conversations with other lending institutions and is seeking to grow NYCAF’s balance sheet from \$70 million at present to between \$85-90 million after fundraising from HDC and these other groups.

### **Request for Approval**

In support of increasing the size of NYCAF to better serve MWBE and non-profit developers, the Members are being asked to authorize an interest-only Senior Term Loan to the New York City Acquisition Fund LLC (“NYCAF”) not to exceed \$10 million with an initial maturity of December 2026, and the ability to extend the maturity date one or more times for a combined duration not to exceed five years to be consistent with the existing \$15 million HDC NYCAF loan. It is expected that the loan will bear an interest rate at SOFR. Principal repayment may occur at any time.

The Fund is expected to use the Senior Term Loan proceeds in combination with other Mezzanine and Subordinate capital in order to leverage further financing from Senior Secured Lenders and on-lend to project loan borrowers. Together the Senior Term, Mezzanine, and Subordinate proceeds typically comprise 48% of each individual project loan (50% less the 2% top loss retained by the Originating Lender (as defined in the attached Term Sheet)), with the Senior Secured lenders providing an amount capped by a 65% LTV requirement (which is 50% of a NYCAF loan with 130% LTV). Project loans fund acquisition and predevelopment costs and are made to MWBE and not-for-profit developers seeking to create or preserve existing affordable or supportive multi-family rental housing in New York City.

### **Risk Mitigants**

The risk mitigation for the additional loan stems from the superior performance of the NYCAF and the senior position of the Senior Term Loan in relation to the Mezzanine and Subordinate Risk Capital at the Fund, as well as fund covenants and rigorous underwriting standards for individual deals. Senior Term Lenders to the Fund hold a senior position secured by the New York City Acquisition Fund LLC and its assets (but not by collateral that secures the NYCAF's project loans). There are currently three Senior Term loans to NYCAF with commitments totaling \$37 million, at terms varying from 2-, 3-, and 5-years. Risk capital at the Fund includes Mezzanine Lenders that combine for \$16 million in funding, a Subordinate Lender (the City of New York, acting by and through HPD) who has provided an \$8 million subordinate loan with a maturity of 2027, and finally by NYCAF Equity which consists of surplus cash generated and maintained by the NYCAF in an amount of \$7.7 million as of October 2023.

The NYCAF operates under financial covenants regarding liquidity, leverage, annual operations, project loan delinquencies, project loan defaults, and net loss rate. As of its latest financial report dated October 31, 2023, the NYCAF is in compliance with all financial covenants.

### **Action by Members**

The Members are requested to approve (a) the use of unrestricted reserves of the Corporation in order to make an interest-only Senior Term Loan to the New York City Acquisition Fund LLC not to exceed \$10 million with a maturity in December 2026, and (b) to delegate to the HDC Credit Committee authority to approve one or more extensions of the maturity date not to exceed five years.

### **Attachments**

- A. Draft NYCAF Senior Term Loan Term Sheet

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## RECAPITALIZATION OF THE NEW YORK CITY ACQUISITION FUND

Updated and Revised November 15, 2023

### Proposed Term Sheet for Senior Term Loans

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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 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.

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**SUMMARY:** The New York City Acquisition Fund LLC (the "Fund") provides financing for acquisition, predevelopment, and moderate rehab to experienced, MWBE and not-for-profit real estate developers of affordable, supportive, and mixed income rental housing in the City of New York (the "City"). The Fund works in conjunction with the New York City Department of Housing Preservation & Development ("HPD") and the New York City Housing Development Corporation ("HDC") to support City housing policy and goals.

The Fund has a 16-year track record of successfully deploying capital to CRA-eligible projects that provide financial and social returns. Since inception, the Fund has deployed \$625 million dollars in 95 projects, generating new production or preservation of 15,194 units. The Fund's default rate is 0.50% while the net loss rate is 0.14%.

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**BORROWER:** New York City Acquisition Fund LLC

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**MEMBERS:** The Fund's co-members are Enterprise Community Partners (50%) and the Local Initiatives Support Corporation (50%).

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**FUND MANAGER:** Forsyth Street is the Fund Manager and has managed the Fund since inception.

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**GOVERNANCE:** A Credit Committee consisting of one representative from HPD, one from HDC, one from Citibank (the Fund's Administrative Agent), two from Enterprise (one from Enterprise Community Partners, one from Enterprise Housing Credit Investment) and one from the Local Initiatives Support Corporation reviews Project Loan requests which have been vetted by the Fund Manager and underwritten by one of the Originating Lenders.

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**ORIGINATING LENDERS:** The Fund uses a delegated underwriting and servicing structure to originate Project Loans. Currently there are four\* community development financial institutions (CDFIs) that originate and service Project Loans for the Fund. Originating Lenders retain a 2% top-loss participation in each Project Loan originated. They include:

1. Corporation for Supportive Housing;
2. Enterprise Community Loan Fund;
3. Local Initiatives Support Corporation; and
4. Low Income Investment Fund.

\* The Community Preservation Corporation (CPC) has also been approved and admitted as an Originating Lender, but will only originate Fund loans associated with HPD's Neighborhood Pillars Program.

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<b>FUND SOURCES OF CAPITAL:</b>	<p>Fund capital, as distinct from Senior Secured Lender capital, is currently capitalized as follows:</p> <ul style="list-style-type: none"> <li>A. Senior Term Lenders. Term Lenders to the Fund hold a senior position secured by the New York City Acquisition Fund, LLC and its assets. There are currently three Senior Term loans to the Fund, including HDC’s existing \$15 million loan, with commitments totaling \$37 million, at remaining terms varying between 2 and 3 years. The 2-year loan, a revolving facility from Deutsche Bank, is expected to extend its loan term by 1 year, aligning its maturity date with that of HDC’s existing \$15 million loan in December 2026.</li> <li>B. Risk Capital, consisting of: <ul style="list-style-type: none"> <li>a. Mezzanine Lenders. Currently three loans totaling \$16 million, with terms 3 and 4 years remaining for two of the loans, and the other maturity later this year. That loan, from Robin Hood Foundation, represents \$4 million of the \$16 million in mezzanine debt, and is being extended for a period of 3 years, once documents are final and lender consents are received.</li> <li>b. Subordinate Lender (City of New York). An \$8 million subordinate loan provided by City of New York Battery Park City Trust Funds and has a 3-year term remaining.</li> <li>c. Equity. Surplus cash generated and maintained by the New York City Acquisition Fund LLC, of approximately \$7.7 million.</li> </ul> </li> </ul>
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Senior Term Loans are secured by the Fund’s balance sheet, but not by collateral securing the Fund’s Project Loans. Such collateral secures draws from the Revolving Credit line separately provided by Senior Secured Lenders.

<b>USE OF SENIOR TERM LOAN PROCEEDS:</b>	<p>Senior Term Loan proceeds are combined with Mezzanine and Subordinate capital and on-lent to Project Loan Borrowers. Together, they typically comprise up to 48% of each individual Project Loan. This 48% level is based on a loan advanced to the Fund’s MWBE or Non-profit borrowers at a 130% advance rate supporting a new construction development. The Fund’s balance sheet capital may represent a higher or lower portion of a Project Loan depending on borrower type and project type in accordance with the Fund’s Operating Agreement. Project Loans fund acquisition and predevelopment costs, and since an update the Fund’s lending standards at the beginning of 2021, are made only to M/WBE and not-for-profit developers seeking to construct new or preserve existing affordable or supportive multi-family rental housing in the City.</p>
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<b>TERM LOAN AMOUNT REQUEST:</b>	<p>\$10 million. At its option, the Fund may draw amounts in 3-month intervals, prepay, and re-draw amounts, never exceeding the Term Loan Amount in the aggregate. The minimum draw amount will be \$1 million.</p>
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<b>TERM:</b>	<p>3-year term. The Fund may prepay all or a portion of the Senior Term Loan proceeds without penalty.</p>
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<b>INTEREST RATE:</b>	<p>SOFR, calculated at the daily rate off of the amount drawn. Interest-only for a 3-year term.</p>
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**FUND COVENANTS:**

1. **Liquidity.** The Fund must maintain 10% of, (i) total assets less (ii) amounts the Borrower has advanced to fund Project Loans, as fully liquid at all times.
2. **Leverage.** The sum of the Fund's Mezzanine, Subordinate, and Equity capital (together, the "Fund Risk Capital") can be no less than 33.3% of the sum of the Fund Risk Capital and total Senior Term Debt.
3. **Annual Operations.** On a cash basis, the Fund's revenues must exceed expenses.
4. **Project Loan Delinquencies.** As of the end of each Fiscal Quarter, Delinquent Project Loans shall be less than or equal to ten percent (10%) of the aggregate outstanding principal balance of all Project Loans then outstanding.
5. **Project Loan Defaults.** At all times, and as of any date, of determination, the total number of Project Loans with write-offs divided by the total number of Project Loans made or purchased by the Fund, shall not exceed five percent (5%) as measured over a rolling 8-year lagged period from the date of determination.
6. **Net Loss Rate.** At all times, and as of any date, of determination, the cumulative loss ratio, measured as (i) aggregate dollar amount of net write-offs on Project Loans divided by (ii) the aggregate principal amount under all Project Loans made, purchased, or guaranteed by the Fund, shall not exceed five percent (5%) as measured over a rolling 8-year lagged period from the date of determination.

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**PROJECT LOAN UNDERWRITING STANDARDS:**

The Fund has underwriting standards for (i) vacant property and (ii) preservation deals. The Fund's current Underwriting Standards are attached but the key points are:

- **Eligible Borrowers.** Entities formed by not-for-profit or MWBE Sponsors, or JVs in which an MWBE or not-for-profit Sponsor is the controlling entity.
- **Loan to value.** up to 130% LTV.
- **Takeout financing.** The Fund is repaid through construction loan proceeds or permanent financing proceeds. Prior to commitment, the Fund requires evidence of support by HPD and/or HDC or an alternate government financing agency, typically in the form of a soft commitment letter.
- **Collateral.** The Fund will take a 1<sup>st</sup> position lien in all properties acquired with Project Loan proceeds.
- **Repayment Guarantees.** Project Loan Sponsors sign joint and several repayment guarantees for 25% of the Project Loan Amount (an amount that may be revised on a case by case basis subject to underwriting). Project Loans are 100% recourse to the Project Loan Borrower entity.

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**REPORTING:**

1. **Investor Reporting.** Quarterly and annual reporting distributed 60 and 150 days respectively after the end of the respective reporting period.
  2. **Project Level Reporting.** The Fund's Originating Lenders will provide quarterly end borrower reporting, which are included in the Fund's quarterly investor reporting. Additionally, web-based Project Loan summaries are typically made available online after a closing.
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