




NEW YORK CITY  
HOUSING DEVELOPMENT  
CORPORATION

## MEMORANDUM

**To:** The Chairperson and Members

**From:** Gary Rodney   
President

**Date:** June 2, 2015

**Subject:** Approval of Loans for 2629 Sedgwick Avenue

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I am pleased to recommend that the Members approve the origination of loans to finance the preservation of 2629 Sedgwick Avenue, a 30-unit residential rent stabilized development located in the Kingsbridge neighborhood of the Bronx (the "Development"), in an aggregate amount not expected to exceed \$3,055,000 (the "Loan").

The senior financing, in an amount not to exceed \$2,945,000 (the "Senior Loan"), will be initially funded from the Corporation's unrestricted reserves and is expected to be federally insured by FHA Risk Sharing mortgage insurance. The Corporation plans to sell the beneficial ownership interest in the senior loan to the Federal Financing Bank ("FFB") pursuant to the FFB/HUD Financing Program and replenish the Corporation's unrestricted reserves. One subordinate loan, in an amount not to exceed \$110,000 (the "Subordinate Loan"), will be funded from the Corporation's Repair Revolving Fund (the "RRF"), which is described in greater detail below, and will be uninsured.

The Senior Loan will pay off short-term indebtedness held by Morgan Stanley with affordable long-term debt that will facilitate the financial stability of the Development. A portion of the Senior Loan proceeds, together with the Subordinate Loan, will be used to recapitalize project reserves and pay for soft costs.

The borrower is Sedgwick Avenue Dignity Developers, LLC, which is a subsidiary of Workforce Housing Group (the "Developer"). Pursuant to a nominee agreement, legal title in the fee to the land comprising the Development is held by UHAB Housing Development Fund Corporation, Inc., which is a subsidiary of Urban Homesteading Assistance (U-HAB) Inc.

For more information on the Development, please see Attachment "A."

## **Background**

In September 2014, the Members approved the FFB/HUD Financing Program, a new initiative with the U.S. Department of Housing and Urban Development ("HUD") and the FFB, a federal corporation under the supervision of the U.S. Department of the Treasury. Under the program, the FFB purchases a beneficial ownership interest in mortgage loans that are originated by HFAs and insured with Risk-Sharing mortgage insurance. 2629 Sedgwick Avenue would be the Corporation's second transaction under the FFB/HUD Financing Program.

In August 2009, the Members approved the purchase of 10 HUD multi-family mortgage loans, and the creation of the RRF. The purchase provided an opportunity for the Corporation to service the loans while facilitating needed repairs on the underlying HUD-assisted properties on the most favorable terms to the borrowers and the City. The RRF provided a new source of subsidy that was funded from a portion of the mortgage revenue generated from the purchased loans. Together, the purchase and RRF were part of a coordinated multi-agency preservation strategy targeted at government-assisted affordable housing. Since 2009, the Corporation has utilized approximately \$5,000,000 in RRF financing to preserve over 700 units of affordable housing. The Additional Loan to the 2629 Sedgwick Avenue development would bring the total RRF financing to approximately \$5,110,000, and the total number of preserved units to 734.

## **Risks and Risk Mitigation**

The primary risk associated with the Loan is a payment default by the Borrower. Corporation staff believes that this risk is mitigated by the FHA Risk Sharing mortgage insurance and prudent underwriting. Recapitalizing the Development's reserves, and providing funding for future capital needs to improve operating efficiencies will further mitigate the repayment risk.

The principals of Workforce Housing Group, the Project's developer, are currently in litigation relating to a complaint that alleges a breach of fiduciary duty and breach of contract in relation to their partnership to develop affordable housing. The litigation does not specifically name the Project, and Corporation staff believes that the Project is satisfactorily insulated from the lawsuit.

## **Action by the Members**

The Members are being requested to approve i) the making of senior and subordinate loans in an aggregate amount not to exceed \$3,055,000, from the Corporation's unrestricted reserves and the RRF, to refinance 2629 Sedgwick Avenue, and ii) the execution by an authorized Officer of the Corporation of mortgage related documents and any other documents necessary to accomplish the financing.

Attachment "A"

2629 Sedgwick Avenue  
Bronx, NY

**Project Location:** 2629 Sedgwick Avenue  
Bronx, NY  
Block 3237, Lot 108

**HDC Program:** Preservation

**Project Description:** 2629 Sedgwick Avenue consists of the preservation of one five-story walk-up building containing 30 residential rental units located in the Kingsbridge section of the Bronx.

**Total Rental Units:** 29 (plus one unit reserved for the superintendent)

**Apartment Distribution:**

<u>Unit Size</u>	<u>No. of Units</u>
1 bedroom	5
2 bedroom	19
<u>3 bedroom</u>	<u>6</u>
Total Units*	30

\*Total units are inclusive of one superintendent unit

**Expected HDC Construction Financing Amount:** \$2,945,000

**Expected HDC Permanent Financing Amount:** \$2,945,000

**Expected HDC Second Mortgage:** \$110,000

**Expected HPD Grant Financed Third Mortgage:** \$730,000

**Total Development Cost:** \$4,480,000

**Owner:** Sedgwick Avenue Dignity Developers, LLC whose principals are John Crotty, John Warren, and Kevin Gallagher; and UHAB Housing Development Fund Corporation, whose principals are Andrew Reicher, Richard Heitler, and Fernando Alarcon.

**Developer:** Workforce Housing Group whose principals are John Crotty, John Warren, and Kevin Gallagher.

**Investor Limited Partner:** N/A

**Credit Enhancer:** N/A