NYC HDC

NEW YORK CITY
HOUSING DEVELOPMENT
CORPORATION

MEMORANDUM

To: The Chairperson and Members

From: Gary Rodney
President

Date: June 3, 2014

Subject: Multi-Family Housing Revenue Debt Obligations (Harlem Dowling)

I am pleased to recommend that the Members authorize the Corporation to enter into a loan agreement (the "Funding Loan Agreement") with Citibank, N.A. ("Citibank") and to issue one or more of the Corporation's Multi-Family Housing Revenue Debt Obligations (Harlem Dowling) (the "Obligations") evidencing the Corporation's obligation under the Funding Loan Agreement to make payments due on a loan (the "Funding Loan"), the proceeds of which will be used by the Corporation to finance two mortgage loans (the "Residential Loan" and the "Community Loan", and together, the "Borrower Loans") for the acquisition and construction of a 60-unit multi-family rental housing development with community facility space to be known as "Harlem Dowling" (the "Project") and pay certain costs related thereto, in an amount not expected to exceed $15,000,000. Interest on the Obligations is anticipated to be exempt from Federal, state and local income tax and subject to private activity bond volume cap.

This memorandum will provide a description of the Project and the Borrowers, and a discussion of the structure, security and risks of the Obligations.

Project Description

The Project consists of the new construction of a 10-story residential tower to be located at 2135 Adam Clayton Powell Jr. Boulevard between West 126th Street and West 127th Street in the Central Harlem neighborhood of Manhattan. The Project will be developed by Harlem Dowling Alembic LLC (the "Residential Borrower") and Home for Harlem Dowling, Inc. (the "Community Borrower", and together with the Residential Borrower, the "Borrowers") and will be comprised of 58 rental units, including 12 studio units, 12 one-bedroom units and 34 two-bedroom units, plus 1 two-bedroom unit to be used by program staff and 1 two-bedroom unit for the building superintendent. The cellar and ground floor of the Project will include approximately 16,000 square feet of community facility space, which will be master leased by the Community Borrower and subleased by The Children's Village for use as program and administrative space for Harlem Dowling-West Side Center for Children and Family Services

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and The Children's Village. Both organizations provide supportive services for young people who are aging out of foster care.

Of the 58 rental units, 80% (46 units) will be reserved for tenants earning no more than 60% of Area Median Income ("AMI"), which is currently $50,340 for a family of four. The remaining 20% (12 units) will be reserved for tenants earning no more than 40% of AMI, which is currently $33,560 for a family of four. These 12 units reserved for 40% of AMI tenants, all of which will be studio units, are expected to be rented to young people who are aging out of foster care. Rents for these units are expected to be set at the greater of 30% of 15% of AMI or 30% of the tenant's income, if it is higher than 15% of AMI, up to 40% of AMI. The Project is also expected to provide the tenants with a laundry room, a resident's lounge and a rooftop terrace.

Following initial occupancy, rents in the Project will be restricted pursuant to programmatic guidelines and subject to Rent Stabilization. Pursuant to the terms of a regulatory agreement to be executed by the Corporation and the Borrowers, among others (the "Regulatory Agreement"), the occupancy and rent restrictions will remain in effect for at least 30 years. All tenants will be protected by the terms of the Regulatory Agreement, which mandates that the tenants be offered continuous lease renewals in accordance with Rent Stabilization.

During construction, the Residential Loan and the Community Loan will be treated as one mortgage loan. After conversion to the permanent phase, the Residential Borrower will be obligated solely on the Residential Loan, which will be secured by a mortgage on the fee interest in the premises, and the Community Borrower will be obligated solely on the Community Loan, which will be secured by a mortgage on the leasehold interest relating to the master lease of the community facility space.

The Project will receive one additional loan from the Corporation's unrestricted reserves of $3,835,000 ("Subordinate Loan"). The Subordinate Loan shall be made in accordance with the LAMP guidelines of $65,000 per unit for the 58 low-income units in the Project and will bear interest at a rate of 1%, with interest-only payments beginning at construction loan closing. The Subordinate Loan will be made to the Residential Borrower only and will be secured by a mortgage on the fee interest in the premises. The Subordinate Loan will not be credit enhanced.

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

Borrower Description

Alembic Development Company, LLC ("Alembic") is a privately owned real estate development company and will be the co-developer of the Project. Founded in 2005, Alembic has assisted in the development of affordable, special needs, and senior housing in Manhattan, Brooklyn and the Bronx, including three developments financed with the Corporation: Friendly Hands (225-241 East 118th Street in Manhattan), 1920 Washington Avenue (East Tremont Apartments) in the Bronx and Barrier Free Living (637 East 138th Street and 616 East 139th Street in the Bronx). Alembic is in good standing with the Corporation. This will be Alembic's fourth project financed by the Corporation.

A partnership of two not-for-profit organizations, Harlem Dowling-West Side Center Children and Family Services ("Harlem Dowling") and The Children's Village, will be the other co-developer of the Project. Founded in 1836, Harlem Dowling's services include foster care, adoption, preventive services and related assistance to children and their families to enable them to live in a stable and nurturing environment. Active in communities throughout New York City, including Central Harlem, Washington Heights, Jamaica and Far Rockaway, Harlem Dowling's central offices have been located in Central Harlem since 1969. In 2012, after a series of financial setbacks, Harlem Dowling formed a strategic partnership with The Children's Village in order to continue pursuing their goal of constructing new office space for Harlem Dowling.

The Residential Borrower will be comprised of Harlem Dowling Managers LLC (managing member; 0.01% interest) and a tax credit investor member. The members of Harlem Dowling Managers LLC are Alembic HD LLC (managing member; 50% interest) and Harlem Dowling Housing Development Fund Company, Inc. (the "HDFC") (50% interest). The sole member of Alembic HD LLC is Alembic Development Company, LLC, whose members are Mark Reed (50% interest) and Benjamin Warnke (50% interest). The sole member of the HDFC is the Community Borrower.

The Community Borrower will be comprised of Harlem Dowling (50% interest) and The Children's Village (50% interest). The members of the board of directors of the Community Borrower are Jeremy C. Kohomban, Karen Dixon and Jean Patton.

The Funding Loan Agreement and Borrower Loans

The Corporation expects to enter into a fixed-rate, pass-through Funding Loan Agreement with Citibank, as evidenced by the Obligations, the proceeds of which will be used by the Corporation for the purpose of providing funds to finance the Borrower Loans.

The Members are asked to authorize a not-to-exceed interest rate of 10% for the fixed-rate Obligations; however, during the construction period, the Residential Loan and the related Obligation are expected to bear interest at a fixed rate of approximately 4%, and the Community Loan and the related Obligation are expected to bear interest at a fixed rate of approximately 7%. Upon conversion to permanent financing, the Residential Loan and the related Obligation are expected to bear interest at a fixed rate of approximately 6%, and the Community Loan and the Community Obligation are expected to bear interest at a fixed rate of approximately 6%. The approximate maturity date for the Residential Loan and the related Obligation is June 30, 2047. The approximate maturity date for the Community Loan and the related Obligation is June 30, 2033.

During the construction phase, the Funding Loan Agreement shall provide that, if the Borrowers fail to pay any amount due and owing under the Borrower Loans or otherwise required by the Funding Loan Agreement, then upon notice after an opportunity to cure any defaults, Citibank shall have (i) the option to fund such amount or (ii) the obligation to purchase the notes and mortgages relating to the Borrower Loans from the Corporation, resulting in the cancellation of the Funding Loan Agreement and the Obligations. If Citibank fails to pay the purchase price, the note and mortgages will be assigned to Citibank and the Obligations and Funding Loan Agreement will be cancelled.

Upon conversion to permanent, the Funding Loan Agreement shall provide that, if the applicable Borrower fails to pay any amount due and owing under the Community Loan or the Residential Loan, as applicable, or any amount otherwise required by the Funding Loan Agreement, then upon notice after an opportunity to cure any defaults, Citibank shall have (i) the option to fund such amount or (ii) the obligation to purchase individually the note and mortgage relating to either the Residential Loan or the Community Loan, as the case may be, resulting in the cancellation of the related Obligation. If Citibank fails to pay the purchase price of the Community Loan or the Residential Loan, as the case may be, the related note and mortgage will be assigned to Citibank and the related Obligation will be cancelled.

Risks and Risk Mitigation

The primary risk associated with the Funding Loan is the potential failure of Citibank to honor its obligation to purchase the applicable notes and mortgages upon a payment default by the Borrowers (during construction) or the applicable Borrower (during the permanent phase). However, Corporation staff believes that this risk is mitigated by the terms of the Funding Loan Agreement, which provide for an automatic assignment of the applicable notes and mortgages to Citibank and the cancellation of the Funding Loan Agreement and the applicable Obligations if Citibank fails to honor its obligation. Citibank is currently rated A/A-1 by Standard & Poor's and A2/P1 by Moody's Investors Service. Additionally, pursuant to the terms of the Funding Loan Agreement, the Corporation is allowed to pay off the Funding Loan at any time with the proceeds of bonds, notes or other obligations of the Corporation.

Fees

The Borrowers will be obligated to pay the Corporation its costs of issuance for the Obligations equal to approximately 1.5% of the Obligations plus an up-front fee equal to 0.75% of the Obligations. In addition, the Corporation will receive an annual administrative and servicing fee on the Borrower Loans that is expected to equal approximately 0.70% of the Obligations during the construction period and 0.50% of the Obligations during the permanent period.

Citibank will receive an origination fee equal to 1% of the Borrower Loans.

Fiscal Agent

U.S. Bank National Association. The Fiscal Agent's role under the Funding Loan Agreement will be analogous to the role of a bond trustee.

Obligations Counsel

Hawkins Delafield & Wood LLP

Pricing Advisor

Caine Mitter & Associates Inc.

Action by the Members

The Members are requested to approve an authorizing resolution which provides for (i) the execution of the Funding Loan Agreement and (ii) the execution of mortgage-related documents and any other documents necessary to accomplish the issuance of the Obligations and the financing of the related loans.

In addition, the Members are requested to approve the making of a subordinate loan to be funded by the Corporation's unrestricted reserves in an amount not to exceed $4,500,000, and the execution by an Authorized Officer of the Corporation of mortgage-related documents and any other documents necessary to accomplish the subordinate financing.

Exhibit A

Harlem Dowling
Manhattan, New York

Project Location:	2135 Adam Clayton Powell Jr. Boulevard New York, NY Block 1911, Lots 61 and 62
Project Description:	The new construction of a 10-story building with 58 low-income residential units and approximately 16,000 square feet of community facility space
Total Rental Units:	58 (plus one unit reserved for the superintendent and one unit reserved for program staff)
Apartment Distribution:	

Unit Size	No. of Units
Studio	12
1 bedroom	12
2 bedroom	34
Total Units*	58

Low-Income Units (rents set at 30% of 57% of AMI):	46
Very Low-Income Units (rents expected to be set at greater of 30% of 15% of AMI or 30% of tenant's income, up to 40% of AMI):	12
Superintendent Unit:	1
Program Staff Unit:	1
HDC Estimated Tax-Exempt Obligations Amount:	$12,700,000
Credit Enhancement:	Funding Loan Agreement with Citibank, N.A.
Owner:	Harlem Dowling Alembic LLC, a New York limited liability company (whose managing member is Harlem Dowling Managers LLC, whose sole member is Alembic HD LLC, whose members are Mark Reed and Benjamin Warnke) and Harlem Dowling Housing Development Fund Company, Inc. (whose members are Harlem Dowling-West Side Center for Children and Family Services and The Children's Village).
Underwriter/Remarketing Agent:	N/A