NYC HDC

NEW YORK CITY
HOUSING DEVELOPMENT
CORPORATION

MEMORANDUM

To: The Chairperson and Members

From: Eric Enderlin
President

Date: September 12, 2017

Re: Multi-Family Secured Mortgage Revenue Bonds, 2017 Series A-1 and 2017 Series A-2, and Certain Related Matters

---

I am pleased to recommend that the Members approve the issuance of the Corporation's Multi-Family Secured Mortgage Revenue Bonds, 2017 Series A-1 and 2017 Series A-2 (the "2017 Series A-1 Bonds" and the "2017 Series A-2 Bonds," respectively, and collectively, the "2017 Series A Bonds" or the "Bonds"), in an amount not to exceed $70,000,000.

Interest on the 2017 Series A Bonds is not expected to be exempt from Federal income taxes, but is expected to be exempt from state and local income taxes. The 2017 Series A Bonds will constitute the sixth and seventh series of bonds to be issued under the Corporation's Multi-Family Secured Mortgage Revenue Bonds Bond Resolution (the "Secured Resolution"), adopted by the Members on May 10, 2005.

The Corporation expects to designate the 2017 Series A Bonds as Sustainable Neighborhood Bonds. The Authorizing Resolutions will authorize the 7th and 8th Supplemental Resolutions for the issuance of the 2017 Series A Bonds.

The Members are further being asked to approve the purchase of an interest rate hedge in a notional amount not expected to exceed $45,000,000 to manage the Corporation's interest rate risk relating to the 2017 Series A-2 Bonds.

Following is a discussion of the Secured Resolution, the proposed uses of the 2017 Series A Bond proceeds, the structure and security for the 2017 Series A Bonds, and other related matters.

Background on the Secured Resolution

The Secured Resolution allows the Corporation to issue bonds (a) to finance mortgage loans for multi-family cooperative and rental housing developments throughout New York City and (b) to refund prior bond issuances of the Corporation that financed multi-family housing developments. Any series of bonds issued under the Secured Resolution, or any mortgage loan financed by such bonds, must be secured by supplemental security (e.g., bond insurance, a credit facility and/or mortgage insurance). As of August 31, 2017, there are 16 mortgage loans (permanent co-op or rental loans) held under the Secured Resolution with a total outstanding principal balance of approximately $123,646,105. One Mortgage Loan, with an outstanding principal amount of $3,870,064, has been delinquent since June 2017. The remaining mortgage loans are current in payment of debt service. These mortgage loans, together with the Debt Service Reserve Account, total $127,148,675 as of August 31, 2017. As of August 31, 2017, the aggregate principal balance of Multi-Family Secured Mortgage Revenue Bonds outstanding was $73,570,000.

Proposed Uses for the Bond Proceeds

A portion of the 2017 Series A Bond proceeds are expected to be used to acquire five (5) mortgage loans currently pledged to the Corporation's Multi-Family Housing Revenue Bonds Bond Resolution (the "Open Resolution") with an approximate aggregate outstanding principal balance of $45,803,658 as of August 31, 2017 (the "2017 Series A Mortgage Loans"). All of the 2017 Series A Mortgage Loans are permanent mortgage loans insured by the mortgage insurance fund of the State of New York Mortgage Agency ("SONYMA") or the New York City Residential Mortgage Insurance Corporation ("REMIC"). The sale is expected to generate approximately $45,522,164 for the Open Resolution which will be used to make new mortgage loans pursuant to the Corporation's loan programs.

An additional portion of the 2017 Series A Bond proceeds are expected to be used to replenish the Corporation's reserves, which will also then be used to make new mortgage loans in furtherance of the Corporation's programs and its commitment to the Mayor's Housing New York plan and for the redemption of certain prior bonds issued under the Secured Resolution.

For more information on the loans to be securitized through the issuance of the 2017 Series A Bonds, please see Attachment "A".

Substitution of Central Harlem Mortgage Loan

It is anticipated that the mortgage loan for the Central Harlem Development ("Central Harlem Mortgage Loan"), which is currently pledged to the Secured Resolution with an outstanding loan balance of approximately $25,276,145 and is insured by SONYMA, may be prepaid through a potential loan restructuring. In anticipation of the restructuring, the Corporation expects to substitute the Central Harlem Mortgage Loan with eight (8) smaller mortgage loans from the Open Resolution and pledge the Central Harlem Mortgage Loan to the Open Resolution. All of the substitute mortgage loans are insured by either SONYMA or REMIC.

The Corporation believes that the substitution will allow for more efficient use of the anticipated loan prepayment given the strength and flexibility of the Open Resolution for relending and bond redemptions. In addition, it is expected that substituting one (1) large mortgage loan with several smaller mortgage loans will improve the diversification of the Secured Resolution loan portfolio and ease the loan portfolio's continuing disclosure requirements.

For more information on the Central Harlem Mortgage Loan and the eight (8) substitute mortgage loans, please see Attachment "B".

Structure of the Bonds

The Bonds are expected to be issued in the modes described below, however, the Authorizing Resolutions relating to the Bonds will provide that a senior officer of the Corporation may determine to combine supplemental resolutions or issue the Bonds in multiple issuances pursuant to the same resolution as long as the total amount of Bonds issued does not exceed $70,000,000. The Corporation expects to issue the Bonds this October.

A. 2017 Series A-1 Bonds

It is anticipated that the 2017 Series A-1 Bonds, in an amount not expected to exceed $30,000,000, will be issued as fixed rate federally taxable bonds. The Members are asked to authorize a not-to-exceed true interest cost of 10% for fixed rate bonds; however, it is expected that the 2017 Series A-1 Bonds will have a true interest cost that does not exceed 3.5% and an approximate final maturity of August 1, 2029.

B. 2017 Series A-2 Bonds

It is anticipated that the 2017 Series A-2 Bonds, in an amount not expected to exceed $40,000,000, will be issued as taxable variable rate index bonds to be purchased by the Federal Home Loan Bank of New York ("FHLBNY") and have an approximate final maturity of February 1, 2041. The Members are asked to authorize a not-to-exceed rate of 15% for the variable rate bonds; however, it is expected that FHLBNY will agree to an interest rate based on a spread to LIBOR and a maximum interest rate of 7.5%. FHLBNY will have the right to give notice on a quarterly basis to put the 2017 Series A-2 Bonds back to the Corporation effective twelve (12) months after such notice. The first date on which such notice may be delivered is anticipated to be February 1, 2018. If the Corporation cannot repay the principal remaining on the 2017 Series A-2 Bonds put, the Corporation will repay FHLBNY the principal amount over a period, anticipated to be five (5) years, from excess cash in the Secured Resolution.

Proposed Interest Rate Hedge

It is anticipated that the Corporation may enter into a hedging instrument to manage the interest rate risk associated with the 2017 Series A-2 Bonds. The Corporation may purchase an interest rate cap from a qualified interest rate provider pursuant to the hedge policy approved by the Members on April 10, 2014 (the "Hedge Policy") and with advice from its Hedge Advisor for a notional amount expected to be $35,000,000. However, the Members are asked to authorize a not-to-exceed notional amount of $45,000,000, to allow the flexibility to make adjustments based on the market conditions and the amount of the 2017 Series A-2 Bonds. The interest rate cap is anticipated to be LIBOR-indexed with an anticipated term of five (5) to seven (7) years.

The Members are asked to authorize a not-to-exceed cost of $600,000 for an interest rate cap; however, the cost of an interest rate cap for a notional amount of $35,000,000 with a five (5) to seven (7) year term and a strike rate of 3.5% is anticipated to be approximately $150,000 to $400,000 as of September 7, 2017.

Security for the Bonds

The 2017 Series A Bonds will be issued and secured on a parity basis with all collateral anticipated to be held under the Secured Resolution. In conjunction with the issuance of the 2017 Series A Bonds, the five (5) mortgage loans to be acquired with the 2017 Series A Bond proceeds and the eight (8) mortgage loans that will replace the Central Harlem Mortgage Loan will be pledged to the Secured Resolution. All of the pledged loans have permanent mortgage insurance provided by SONYMA or REMIC.

Risks and Risk Mitigation

The primary risk associated with the 2017 Series A Bonds is repayment risk from the borrowers. This risk is mitigated through conservative underwriting incorporating substantial debt service coverage and income-to-expense ratios, as well as low loan-to-value ratios. The 2017 Series A Bonds will be conservatively sized based on the amount of debt service currently being paid on the 2017 Series A Mortgage Loans, as well as the surplus cash flows generated by the overcollateralization of the Secured Resolution. The Corporation believes that the risk of non-payment is small. In addition, the security requirement under the Secured Resolution further reduces the non-payment risk. All of the mortgage loans expected to be acquired or financed by the 2017 Series A Bonds are permanent mortgage loans insured by SONYMA or REMIC.

Deposits and Fees

The Corporation will not collect any fees for this bond issuance as the bond proceeds will be used to acquire existing mortgage loans.

The underwriters will earn an up-front underwriters' fee, including expenses, in an amount that is collectively not to exceed 1.75% of the 2017 Series A Bonds.

Ratings

The Bonds are expected to be rated Aa1 by Moody's.

Senior Manager

Samuel A. Ramirez & Co., Inc. (*Expected Senior Manager for 2017 Series A-1 and 2017 Series A-2)*

Co-Senior Manager

Raymond James & Associates, Inc. (*Expected Co-Senior Manager for 2017 Series A-1 and 2017 Series A-2)*

BofA Merrill Lynch (*Expected Co-Senior Manager for 2017 Series A-2)*

Co-Managers

BofA Merrill Lynch *(Expected Co-Manager for 2017 Series A-1)*

Underwriters' Counsel

Orrick, Herrington & Sutcliffe LLP

Bond Trustee

The Bank of New York Mellon

Bond Counsel

Hawkins Delafield & Wood LLP

Action by the Members

The Members are asked to approve an authorizing resolution that provides for (i) the adoption of Supplemental Resolutions to the Secured Resolution providing for the issuance of the 2017 Series A Bonds; (ii) the distribution of a preliminary and final official statement for the 2017 Series A Bonds; (iii) the execution of bond purchase agreement(s) with the Underwriter(s) of the Bonds or a direct purchaser of any or all of the Bonds; (iv) the use of the Corporation's unrestricted reserves to fund costs of issuance for the Bonds and to fund all or a portion of the debt service reserve account requirement in connection with any or all of the series of Bonds, as may be required; (v) the execution by an authorized officer of the Corporation of any and all documents necessary to issue the 2017 Series A Bonds and to acquire the mortgage loans relating to the 2017 Series A Bonds.

The Members are requested to approve the purchase of an interest rate cap using the Corporation's unrestricted reserves in an amount not to exceed $600,000 and the execution by the President or any Authorized Officer of the Corporation of any and all documents necessary to enter into an interest rate cap or swap agreement.

Attachment A

2017 SERIES A MORTGAGE LOANS AS OF August 31, 2017

Development Name (Address/Number of Units)	Lien Position	Permanent Mortgage Loan Supplemental Security	2017 Series A Mortgage Loan Amount	Permanent Mortgage Interest Rate	Mortgage Loan Closing Date	Mortgage Loan Maturity Date
Crown Heights Senior Residence (1055 St Johns Place, Brooklyn, NY 11213/144)	Senior	SONYMA	$10,731,222	6.20%	08/19/10	09/01/40
Magnolia Plaza (686 Lafayette Avenue, Brooklyn, NY 11216/102)	Senior	SONYMA	6,253,109	5.85%	06/04/09	07/11/39
University Macombs Apts (1647-1655 Macombs Road, Bronx, NY 10453/210)	Senior	SONYMA	10,860,648	5.85%	05/15/07	06/01/37
Brook Willis Apartments (431-445 East 136th Street, Bronx, NY 10454 /121)	Senior	SONYMA	5,568,336	5.85%	07/21/11	01/01/39
Artimus Site 8 (1465 Fifth Avenue, Manhattan, NY 10029/54)	Senior	REMIC	12,390,343	5.95%	11/04/11	04/01/41
TOTAL†			$45,803,658			

† May not add due to rounding.

Attachment B

Development Name (Address/Number of Units)	Lien Position	Permanent Mortgage Loan Supplemental Security	2017 Series A Mortgage Loan Amount	Permanent Mortgage Interest Rate	Mortgage Loan Closing Date	Mortgage Loan Maturity Date
Ellington on the Park (120 Bradhurst Avenue, Manhattan, NY 10039/134)	Senior	SONYMA	$9,662,404	3.81%	01/28/10	02/01/40
116 West 116th Street (116 West 116th Street, Manhattan, NY 10026/21)	Senior	REMIC	2,318,959	7.00%	03/30/12	08/31/37
520-540 Audubon Avenue (520 Audubon Ave, Manhattan, NY 10040/138)	Senior	REMIC	1,776,818	6.00%	07/27/11	07/30/41
Putnam Deegan II (3800 Putnam Avenue West, Bronx, NY 10436/44)	Senior	REMIC	3,866,464	8.00%	04/15/09	04/01/35
Twin Pines Apartments (860 East 165th Street, Bronx, NY 10459/28)	Senior	REMIC	2,641,231	6.75%	07/30/09	05/30/37
Via Verde Rental Associates LP (700 Brook Avenue, Bronx, NY 10455/76)	Senior	REMIC	3,136,200	7.70%	03/21/13	04/01/43
Creston Towers (2238 Creston Avenue, Bronx, NY 10453/42)	Senior	REMIC	1,973,574	7.10%	01/25/12	09/01/40
Longwood Gardens (852 East 161st Street, Bronx, NY 10459 /25)	Senior	REMIC	2,201,425	7.00%	07/12/11	08/31/41
TOTAL†			$27,577,073			

† May not add due to rounding.