



NEW YORK CITY  
HOUSING DEVELOPMENT  
CORPORATION

## MEMORANDUM

**To:** The Chairperson and Members

**From:** Eric Enderlin *EE*  
President

**Date:** May 29, 2018

**Subject:** Approval of a Loan for La Cabana

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I am pleased to recommend that the Members approve the origination of a loan (the "Loan") in an amount not expected to exceed \$61,501,000 to finance the rehabilitation and permanent financing for the La Cabana development described herein. The Loan may be initially funded with the Corporation's unrestricted reserves, and 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").

Following is a description of the proposed uses of the Loan, the anticipated structure, security, other relevant terms, and a background of the FFB program.

### Proposed Uses for the Loans

It is anticipated that the proceeds of the Loan will be used to finance a new senior mortgage loan for one (1) development as described in the chart below:

Existing Financing Source	Development Name (Borough/Number of units)	Project Type	Expected Not to Exceed Amount
HDC Loan	La Cabana (Brooklyn/167)	Section 8 Preservation	\$61,501,000
<b>Total</b>			<b>\$61,501,000</b>

The proceeds of the Loan for La Cabana will be used by the mortgagor, La Cabana Apartments LLC, for the purpose of paying for the costs of preserving La Cabana, an FHA Insured Article 5 project, totaling 167 residential units located in the Williamsburg neighborhood of Brooklyn. It is anticipated that the proceeds of the Loan will be used to refinance the existing indebtedness,

fund moderate rehabilitation work, recapitalize project reserves, reduce the equity position in the development, and facilitate the long term preservation of affordable housing for households earning less than 60% of area median income.

The mortgagor and project sponsor, La Cabana Apartments LLC, is a partnership between a group of three for-profit investors and developers, whose principals all have experience in affordable housing. Charles Gendron is the principal of Low Income Housing Corp. (LIHC), one of the nation's largest owners of affordable housing and is currently invested in several projects in the Corporation's portfolio including Stevenson Commons. Abraham Fruchthandler is the principal of FBE Limited LLC, a real estate ownership and management company with a portfolio of over 25 million square feet of industrial/office properties and over 4,000 residential units in New York and Connecticut. Rubin Schron is the principal of Cammeby's International Group, a New York based real estate investment group founded in 1967. Cammeby's portfolio consists of an extensive portfolio of office buildings, market-rate and affordable housing, nursing homes, and the 16-building complex in Sunset Park known as Industry City.

The Project will have a Project Based Voucher ("PBV") Section 8 contract through HUD's Project-Based Section 8 Housing Assistance Payments program.

For more information on the project, please see Attachment A-1.

### **Structure and Security**

The Loan will be structured as a senior permanent mortgage loan secured by the fee simple interest in the development. The Loan will be originated with a 35-year term and is expected to have an interest rate that does not exceed 7.00%. The Loan is expected to have mortgage insurance under the Risk-Sharing program with HUD with the Corporation assuming 50% of the risk, which is a requirement for participation in the FFB program.

### **Background of the FFB Program**

In September 2014, the Members approved the FFB Program, an initiative with 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. The FFB receives a purchaser pass-through rate, which will not exceed the interest rate on the mortgage loan and is expected to approximate the rate that the market is then providing on a comparable Ginnie Mae security. The proposed Loan is expected to be the Corporation's eighth transaction under the FFB Program.

### **Risks and Risk Mitigation**

The primary risk associated with the Loan is a payment default by the borrower. The Corporation's staff believes that this risk is mitigated by the Risk-Sharing mortgage insurance, strict underwriting, the borrower's financial strength and experience, and the Corporation's ongoing asset management and monitoring of the development. In addition, the project will capitalize a reserve of two months' worth of debt service payments. Recapitalizing the development's existing reserves for future capital needs will further mitigate the repayment risk.

The Corporation will be obligated to cover 50% of the total loss following a claim on the Risk-Sharing mortgage insurance. Corporation staff believes this is an acceptable risk given the favorable terms of FFB financing.

### **Deposits and Fees**

The borrower will pay the fees of bond counsel, if any, and the custodian, plus any additional funds that are required to compensate the Corporation for its management of the Loan.

The Corporation will also charge the borrower an annual servicing fee of at least 0.20% on the outstanding principal balance of the senior mortgage 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.

### **Action by the Members**

The Members are being requested to approve i) the making of a loan in an aggregate amount not to exceed \$61,501,000 initially funded with the Corporation's unrestricted reserves until purchase of the Loan by the FFB for the preservation of La Cabana and ii) the execution by an Authorized Officer of the Corporation of mortgage related documents and any other documents necessary to accomplish the financings.

**Attachment "A-1"**

**La Cabana  
Brooklyn, New York**

**Project Location:** 391 Lorimer Street  
417 Lorimer Street  
16 Ten Eyck Avenue

**HDC Program:** Section 8/Preservation

**Project Description:** The project consists of the preservation of three walkup buildings containing 167 residential units, laundry rooms and administrative offices. 100% of the units will be affordable to households earning no more than 60% AMI.

**Total Rental Units:** 167 (including 1 superintendent's unit)

**Apartment Distribution:**

<u>Unit Size</u>	<u>No. of Units</u>
One bedroom	53
Two bedroom	33
Three bedroom	81
Total Units*	167

\* Total Units are inclusive of one (1) 3-bedroom unit for a superintendent.

**Expected HDC Permanent Financing Amount:** \$55,910,000

**Total Development Cost:** \$55,910,000

**Owner:** La Cabana Apartments LLC, whose members are LP Solutions LLC, FBE Cabana LLC, Cam Cabana LLC  
Principals: Charles Gendron, Abraham Fruchthandler, Rubin Schron

**Developer:** LP Solutions LLC, FBE Cabana LLC  
Principals: Charles Gendron, Abraham Fruchthandler

**Investor Limited Partner:** N/A

**Credit Enhancer:** HUD Risk Share 50/50 (Permanent)