NEW YORK CITY
HOUSING DEVELOPMENT
CORPORATION

M E M O R A N D U M

To: The Chairperson and Members

From: Ruth Moreira
Acting First Executive Vice President

Date: November 23, 2021

Re: Approval of a Co-Lending Construction Loan and a Permanent Loan for the PACT Linden-Penn-Wortman Developments

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I am pleased to recommend that the Members approve the origination of a construction loan (the "Construction Loan") in an amount not expected to exceed $434,740,000 and a permanent loan (the "Permanent Loan" and together with the Construction Loan, the "Loans") in an amount not expected to exceed $418,660,000 for the acquisition, rehabilitation, and permanent financing of the PACT Linden-Penn-Wortman developments (the "Project").

During the construction period, Wells Fargo Bank, National Association ("Wells") is expected to purchase approximately two-thirds of the Construction Loan. Wells' interest in the Construction Loan will be funded pursuant to a participation agreement between the Corporation and Wells. The Corporation's retained share of the Construction Loan, in an amount not expected to exceed $144,910,000, is expected to be funded with available funds in the Multi-family Housing Revenue Bonds Bond Resolution (the "Open Resolution") and/or the Corporation's unrestricted reserves. The Corporation's expected funding of the Construction Loan is further described in the memorandum entitled "Multi-Family Housing Revenue Bonds, 2021 Series K, L, M, 2022 Series A; Approval of Mortgage Loans and Approval of SUN Loan" to be presented to the Members concurrently herewith.

The Permanent Loan 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"), a federal corporation under the supervision of the U.S. Department of the Treasury. The Loans will provide construction and permanent financing for the Project defined herein.

The Permanent Loan is expected to be sold to the FFB as part of FFB's newly reauthorized New Construction / Substantial Rehab Insured Upon Completion Program (referred herein as the "Forward FFB Execution"). The Members originally approved the Corporation's participation in the FFB program and the use of the Risk Sharing program for FFB in September 2014.

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

The Loans

The Loan proceeds will be used by Stanley Avenue Preservation LLC, a New York limited liability company (the "Borrower"), to finance the acquisition, rehabilitation, and permanent financing of the Project, which is comprised of two New York City Housing Authority ("NYCHA") developments known as Linden Houses and Pennsylvania Avenue-Wortman Avenue. The Project consists of the conversion of 1,922 units in 22 tenant-occupied NYCHA public housing buildings to Section 8 supported multi-family housing in Brooklyn, as further described herein. The Project is part of the "Permanent Affordability Commitment Together" or "PACT" strategy outlined in the 2018 NYCHA 2.0 strategic plan, which describes how the City of New York (the "City") will reinvest and reposition public housing through Section 8 conversions.

The Construction Loan is anticipated to be originated by the Corporation and funded by both the Corporation and Wells in an amount not expected to exceed $434,740,000 at a variable interest rate set as a spread to the Secured Overnight Financing Rate (SOFR) with an anticipated term of 36 months.

The Permanent Loan is expected to have a 40-year term, a 40-year amortization schedule, and an interest rate of 4.50%. The Permanent Loan will be used to repay in part the Construction Loan and provide permanent financing for the Project in an amount not expected to exceed $144,910,000. The Permanent Loan is expected to be insured through the Corporation's FHA Risk Share Program and subsequently sold to the FFB.

Project Description

The Project is comprised of 1,922 units (inclusive of five units for superintendents' use) across 22 buildings in the East New York neighborhood of Brooklyn.

Approximately four percent of the total units (67 units) will convert to Section 8 through HUD's RAD program. RAD is designed by HUD to be "cost neutral" and simply shifts federal public housing operating and capital subsidy into a federal Section 8 rental subsidy contract. Given that public housing subsidies are dwindling, RAD rents are significantly lower than Fair Market Rent ("FMR").

The units in one of the developments, which includes approximately fourteen percent of the total units (268 units), will convert to Section 8 through the Section 18 disposition process alone, accessing Tenant Protection Vouchers ("TPVs") with FMR rents for 100% of such units. To qualify for 100% Section 18 and the corresponding TPVs, a property must meet HUD's definition of "obsolescence". This development is expected to meet the required threshold.

The remaining 1,582 units are part of NYCHA's former "City/State Developments" and will convert to Section 8 through the Part 200 process, tapping into NYCHA's allocation of Project Based Vouchers ("PBVs"). These units comprise a portion of Linden Houses, and as part of the transactions currently presented for approval, this development will be released from existing HDC mortgages.

Pursuant to the Section 8 contracts (the "HAP Contracts"), the Project will be reserved for households earning no more than 50% of Area Median Income ("AMI") which is currently

$59,650 for a family of four. The Project is approximately 90% occupied, with a majority of households earning below 50% of AMI. Approximately 3% of the existing tenants (63 families) are expected to be over-income but will be allowed to remain in residence. Upon vacancy, units will be rented to households earning no more than 50% of AMI. In addition to income restrictions under the HAP Contracts, the Project will be subject to the terms of a regulatory agreement to be executed by the Corporation and the Borrower (the "HDC Regulatory Agreement"). The occupancy restrictions under the HDC Regulatory Agreement will require units to be reserved for households earning no more than 60% of AMI and remain in effect for as long as the term of the ground lease and for a minimum of forty (40) years from the date of Construction Loan closing (the "Occupancy Restriction Period"). The Project will go through a substantial tenant-in-place rehabilitation of its 1,922 units that will address a 20-year capital need, as prescribed by HUD. The scope of work consists of an extensive rehabilitation program that is expected to bring significant quality of life improvements to residents of the Project, improve the Project's energy efficiency performance and enhance the Project. Specific improvements include: upgraded kitchens and bathrooms; new flooring and painting; community center expansion and rehabilitation; mechanical and electrical upgrades; window replacements; roof and façade repair; broadband infrastructure installation; and lead testing and abatement.

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

<u>Borrower and Developer Description</u>

In September 2019, NYCHA issued a request for proposal for a co-developer partner for the Project. The developer selected is Stanley Avenue Preservation LLC, a joint venture between entities controlled by Dantes Partners, Douglaston Development, L + M Development Partners, and SMJ Development (the "Development Team").

It is expected that a recently formed entity, Stanley Avenue Preservation LLC ("Borrower"), will be the borrower on the Loans and hold the beneficial leasehold ownership interests in the Project and property. The managing member of the Borrower is Stanley Avenue Preservation Manager LLC ("Managing Member"), an entity owned and controlled by the Development Team; and the non-managing member of the Borrower is NYCHA PACT LLC, a joint venture between NYCHA and the New York City Housing Partnership. NYCHA or an affiliate thereof will have a 79% interest in the non-managing member of the Borrower. In the Borrower joint venture operating agreement, the Development Team will agree to provide day-to-day decision making; and NYCHA will receive various financial benefits, including an acquisition payment, development fee, and cash flow. NYCHA will maintain certain control and decision rights by retaining the aforesaid fee ownership of the land and by acting as a member of the Borrower entities described above.

While NYCHA will retain fee ownership of the property, the Borrower will be the beneficial lessee under a 99-year NYCHA ground lease. Clinton Management and C+C Apartment Management will take over property management responsibilities for the portfolio.

NYCHA will guarantee certain resident protections, including automatic lease renewal, succession rights and the right to a hearing to resolve grievances. In addition, residents will pay no more than 30% of their incomes toward rent, with the balance covered by Section 8.

The general contractor of the rehabilitation work (the "General Contractor") will be SAP Construction LLC, a joint venture between J.E. Levine Builder, Inc. and Stanley Avenue Builders LLC (an affiliate of L + M Development Partners).

Structure and Security of Construction Loan

The Construction Loan will be a senior mortgage loan secured by a leasehold mortgage. At Construction Loan closing, the Corporation will enter into a participation agreement with Wells which will obligate Wells to fund approximately two-thirds of the Construction Loan and include customary co-lending terms. The Corporation's funding of the Construction Loan is further described in the memorandum entitled "Multi-Family Housing Revenue Bonds, 2021 Series K, L, M, 2022 Series A; Approval of Mortgage Loans and Approval of SUN Loan" to be presented to the Members concurrently herewith.

Wells will service the Construction Loan and will monitor construction through Partner Assessment Corporation, a third-party monitor. The third-party monitor will complete an upfront Plan and Cost Review in addition to ongoing construction monitoring reports. The Corporation will rely on this monitor's expertise. The General Contractor will provide a completion guaranty and 100% Payment and Performance Bonds.

Structure and Security of FFB Permanent Loan

At permanent conversion, the Construction Loan will be repaid by the Permanent Loan and funds available to the Borrower. The Permanent Loan will be structured as a senior mortgage loan secured by a leasehold mortgage. The Permanent Loan is expected to be enhanced with mortgage insurance arranged by the Corporation under its Risk Sharing agreement with HUD. It is expected that the Corporation will assume 50% of the default risk through this program.

On or after permanent conversion, FFB is expected to purchase a beneficial ownership interest in the Permanent Loan. FFB will receive a pass-through rate established by FFB, which will not exceed the interest rate on the Permanent Loan and is expected to approximate the rate that the market is then providing on a comparable Ginnie Mae security.

In the event the permanent conversion occurs prior to the purchase of the Permanent Loan by FFB, the Permanent Loan may be initially funded with the Corporation's unrestricted reserves.

Risks and Risk Mitigation

The primary risks associated with the Project are (1) construction completion risk; and (2) payment default by the Borrower. Corporation staff believes these risks are mitigated by several factors. Construction completion risk is mitigated by the Development Team's experience renovating similar tenant-in-place rehabilitation projects, the completion guaranty to be provided by the General Contractor, Payment and Performance Bonds provided by the General Contractor, and the third-party construction monitoring overseen by Wells. Payment default risk is mitigated by the Section 8 contract payments, the Development Team's history in operating and managing similar projects, conservative underwriting incorporating low loan-to-value ratios, and strong debt service coverage and income to expense ratios, the Corporation's ongoing asset management and monitoring of the developments, and the Risk Sharing mortgage insurance. The Corporation will be obligated to cover 50% of the total loss following a claim on the Risk Sharing mortgage insurance. Corporation staff believes these are all acceptable risks.

Managing Interest Rate Volatility

The Permanent Loan will be executed under the Forward FFB Execution, which was suspended in 2019 and reauthorized in September 2021. The Permanent Loan interest rate will not be established until permanent conversion. The Corporation expects to use a multi-faceted portfolio hedging approach to protect against interest rate volatility associated with this forward commitment. Currently the Corporation has certain existing interest rate swaps purchased in connection with its previous forward financing commitments. If interest rates remain low and the Corporation is able to fulfill most of its forward commitments at a favorable cost of funds, these interest rate swaps may become available, and can be repurposed to provide effective hedging against the Corporation's new forward commitments. Working with its Hedge Advisor, Mohanty Gargiulo LLC, the Corporation has reviewed its portfolio-wide interest rate risks and determined that a combination of its existing hedging portfolio and the spread built into the anticipated rate of the Permanent Loan provide enough protection from interest rate movements for this forward commitment. In the event the rate environment changes inordinately and requires the purchase of additional hedging instruments, the proposed terms of the new interest rate hedging instruments will be presented to the Members for approval.

Deposits and Fees

The Borrower will pay the Corporation its costs of financing in an amount not to exceed 1% of the Construction Loan, plus an up-front commitment fee equal to 0.75% of the Construction Loan.

The Borrower will pay the fees of the custodian, plus any additional funds that are required to compensate the Corporation for its management of the Loans.

The Borrower will pay Wells an up-front origination fee equal to 0.50% of the Construction Loan.

The Corporation will also charge the Borrower an annual servicing fee of at least 0.20% on the outstanding principal balance of the Permanent Loan or other applicable fees. The Corporation will receive an upfront premium, and an ongoing premium of 0.375%, which is the Risk-Sharing mortgage insurance premium paid by the Borrower and included in the interest rate. The Borrower will also pay a required FFB deposit equivalent to two months' principal and interest payments.

FFB Custodian

To be determined.

Hedge Advisor

Mohanty Gargiulo LLC

Action by the Members

The Members are requested to authorize (a) the financing of a Construction Loan for the Project, in an amount not expected to exceed $434,740,000; (b) the sale of approximately two-thirds of the Construction Loan to Wells through a participation agreement; (c) the funding of the Corporation's retained share of the Construction Loan, in an amount not to expected to exceed $144,910,000, plus costs associated with any delinquency resolution, with available funds in the Open Resolution and/or the Corporation's unrestricted reserves; and (d) the execution by an Authorized Officer of the Corporation of mortgage-related documents and any other documents necessary to accomplish the financing.

The Members are requested to approve i) the making of a Permanent Loan in an aggregate amount not to exceed $418,660,000, which may be initially financed with the Corporation's unrestricted reserves until purchase of the Loan by the FFB, for the permanent financing of the Project, and ii) the execution by an Authorized Officer of the Corporation of mortgage related documents and any other documents necessary to accomplish the financing.

EXHIBIT A

PACT Linden Houses – Pennsylvania Avenue-Wortman Avenue
Brooklyn, New York

Project Locations:

Linden Houses:
570, 580, 630, 640 Stanley Avenue
183, 185, 187, 215, 225, 243, 245, 247 Wortman Avenue
912, 914 Van Siclen Avenue
180, 190, 240, 250 Wortman Avenue
195, 213, 215, 217, 245 Cozine Avenue
270, 300 Wortman Avenue
285, 295 Cozine Avenue
670, 696 Stanley Avenue

Pennsylvania Avenue-Wortman Avenue:
875, 877, 879, 881, 895 Pennsylvania Avenue
155 Wortman Avenue
920 Vermont Street
520, 530 Stanley Avenue

HDC Program: NYCHA PACT

Project Description: This project will consist of the substantial rehabilitation of 1922 units in nineteen buildings across two developments in the East New York neighborhood. Total project square footage is approximately 1,462,407 gross square feet.

Total Rental Units: 1917 (plus 5 superintendent units)

Apartment Distribution:

Unit Size	No. of Units
Studio	87
1 bedroom	250
2 bedroom	1174
3 bedroom	396
4 bedroom	12
5 bedroom	3
Total Units*	1922

*Total Units are inclusive of five superintendent units

Expected HDC Construction Financing Amount: $395,200,000 of which $263,470,000 is expected to be funded by Wells Fargo Bank, National Association and $131,730,000 is expected to be funded by HDC.

Expected HDC Permanent Financing Amount: $380,600,000

Expected Total Development Cost: $538,598,340

Owner: Stanley Avenue Preservation LLC, the beneficial leasehold ground lessee, whose principals are Jeffrey E. Levine (DD Linden Houses LLC); Juan Barahona, an affiliate of SMJ Development LLC (SMJ Stanley Avenue LLC); Ron Moelis and Sandy Lowentheil and/or other affiliate(s) of L + M Development Partners LLC (L&M Stanley Avenue Preservation LLC); and Omabuwa Binitie, an affiliate of Dantes Partners (DP SAP LLC); and

Stanley Avenue Preservation Housing Development Fund Corporation, the nominee leasehold ground lessee, whose board of

	directors and officers consist of Alexa Sewell, President, Garraud Etienne, Vice President, and Lee Warshavsky, Secretary/Treasurer.
Developer:	DD Linden Houses LLC, SMJ Stanley Avenue LLC, DP SAP LLC and L&M Stanley Avenue Preservation LLC.
Credit Enhancer:	Construction – Unenhanced Permanent – HUD FHA Risk Share 50/50