NEW YORK CITY
HOUSING DEVELOPMENT
CORPORATION

M E M O R A N D U M

To: The Chairperson and Members

From: Eric Enderlin
President

Date: September 21, 2022

Subject: Approval of Mortgage Loans

I am pleased to recommend that the Members authorize the Corporation to use unrestricted reserves and/or the available funds in the Open Resolution to finance one (1) senior mortgage loan and one (1) subordinate mortgage loan to fund the rehabilitation of two (2) developments.

Following is a description of the proposed financing of the mortgage loans as well as a background of the Multi-Family Housing Revenue Bonds Bond Resolution (the "Open Resolution").

Background and Status of the Open Resolution

Under the Open Resolution, the Corporation has issued bonds (a) to finance or acquire mortgage loans for multi-family rental and cooperative housing developments throughout New York City, (b) to refund other bond issues of the Corporation, which had financed other multi-family developments, and (c) to acquire a 100% interest in City-owned mortgages. As of April 30, 2022, there were 1,370 mortgage loans (1,196 permanent loans and 174 construction loans) held under the Open Resolution with a total outstanding principal balance of approximately $10,733,430,926 including $6,860,142,029 in permanent loans and $3,873,288,897 in construction loans. These mortgage loans, together with funds in the Bond Proceeds Account and Debt Service Reserve Account, totaled $12,466,891,781 as of April 30, 2022. There are no material monetary defaults on any of the mortgage loans other than temporary financial difficulties with respect to certain developments which are in the process of being cured. As of April 30, 2022, there were $9,942,155,000 of Open Resolution bonds outstanding, not including bonds issued under the Federal New Issue Bond Program (NIBP) and bonds issued under the 2017 Pass-Through Resolution. Subsequent to April 30, 2022, the Corporation issued $828,160,000 principal amount of Open Resolution bonds.

Financing Taxable Mortgage Loans

It is anticipated that the Corporation will use unrestricted reserves and/or the available funds in the Open Resolution to finance two (2) taxable mortgage loans for the rehabilitation of two (2) developments as described in the chart below. Both loans will be pledged to the Open Resolution.

Development Name (Borough/Units)	**Project Type**	**Loan**	**Not Expected to Exceed Amount**
Kent Village (Brooklyn/534)	Mitchell-Lama Restructuring	Subordinate Loan	$25,160,000
Southern & Willis (Bronx/76)	Preservation	Senior Loan	$3,835,000
		TOTAL LOAN AMOUNT:	**$28,995,000**

The Corporation expects to originate a new subordinate permanent loan, supported by existing cash flow, to finance the Kent Village development. Proceeds from the subordinate loan will support a recapitalization of the project. The development will also benefit from the purchase of a minority, non-managing ownership stake by a new investor and new scope of work.

The Corporation expects to originate a new senior construction loan to fund the moderate rehabilitation of the Southern & Willis development and to reimburse the borrower for payments made to purchase the LIHTC investor's ownership interest. The Corporation currently owns a 100% participation in the subordinate financing for the development which was originated by HPD and is now expected to be extended and modified as part of the new financing.

For more information on these developments, please see Attachments "1" and "2".

<u>Risks and Risk Mitigation</u>

The primary risk to the Corporation related to the funding of the Kent Village subordinate loan during the permanent financing period is the repayment risk from the borrower. This risk is mitigated through conservative underwriting incorporating low loan-to-value and substantial debt service coverage and income to expense ratios.

A secondary risk related to the funding of the Kent Village subordinate loan is the borrower's inability to complete the rehabilitation. This risk is mitigated through strict underwriting of the permanent loan which provides for debt service to be funded by the project's current net operating income. To reduce the risk of construction delays, the Corporation's staff will review the scope of work prior to permanent closing and will assume construction monitoring and servicing responsibilities during the initial construction period of the permanent loan. The general contractor will also be required to obtain a 100% Payment and Performance bond.

The primary risk to the Corporation related to the funding of the construction loan for the Southern & Willis development during the construction period is the borrower's potential inability to complete the rehabilitation. The Corporation's staff believes this risk is mitigated through a comprehensive structure dictating the types of projects to be financed without a letter of credit, strict underwriting, and the ongoing monitoring of the development during the rehabilitation period. The occupied development has a moderate scope of work. The budget for the Southern & Willis development includes capitalized construction interest reserves and construction retainage. The Corporation's staff will review scopes of work and the general contractor is required to obtain a 10% Letter of Credit. The Corporation's Asset Management staff will complete a plan and cost review and assume construction monitoring and servicing responsibilities.

The primary risk to the Corporation related to funding of the Southern & Willis senior mortgage loan during the permanent financing period is the repayment risk of the borrower. The risk of default is partially mitigated by the Corporation's use of a mortgage insurance policy provided by the New York City Residential Mortgage Insurance Corporation ("REMIC"). The risk of default is also mitigated through conservative underwriting incorporating low loan-to-value and substantial debt service coverage and income to expense ratios.

Deposits and Fees

It is expected that the Corporation will charge the borrowers for the Kent Village and the Southern & Willis developments an upfront commitment fee equal to 0.75% of the mortgage loan amounts. It is also expected that the borrowers of the Kent Village and Southern & Willis developments will pay an amount equal to their pro-rata share of costs of issuance, including the fees of the underwriter, bond counsel, rating agencies, and the trustee plus any additional funds that are required to compensate the Corporation for its management of the Bonds or to reimburse the Corporation for certain costs incurred during the construction of the project.

Action by the Members

The Members are requested to approve (a) the financing of one (1) taxable senior mortgage loan and one (1) taxable subordinate mortgage loan in an aggregate amount not to exceed $28,995,000 for the Kent Village and Southern & Willis developments, and (b) the execution by an Authorized Officer of the Corporation of mortgage related documents and any other documents necessary to accomplish such financings.

Attachment "1"

Kent Village
Brooklyn, New York

Project Location:	111 Clymer Street, 115 Clymer Street, 541 Wythe Avenue, 50-54 Division Avenue, 60 Division Avenue, 64-70 Division Avenue
HDC Program:	Mitchell-Lama Restructuring
Project Description:	The project consists of the moderate rehabilitation of four 7-story and two 25-story buildings containing 534 residential units and approximately 23,340 SF of commercial retail space in the Williamsburg neighborhood of Brooklyn. 498 of the units are income restricted at 50% AMI and the remainder are income restricted at 80% AMI.
Total Rental Units:	532 (plus two superintendent units)
Apartment Distribution:	

Unit Size	No. of Units
Studio	0
1 bedroom	100
2 bedroom	192
3 bedroom	174
4 bedroom	68
Total Units*	534

*Total Units are inclusive of two superintendent units

Expected HDC Construction Financing Amount:	N/A
Expected HDC Permanent Financing Amount:	$22,870,000
Expected Total Development Cost:	$95,876,814
Owner:	Division Housing Corporation, the fee owner and 51% managing member of the beneficial owner, whose board members are Monsignor Anthony Hernandez, Rabbi Joshua Rosenbaum, Mary Dunbar and Miguel A. Hernandez Sr., and RC Plaza Associates LLC, the beneficial owner, whose 49% non-managing member is RCP Preservation LLC and whose principals are Charles P. Gendron, Andrew C. Gendron and Robert Kotara.
Developer:	Division Housing Corporation and LIHC
Credit Enhancer:	Construction – N/A Permanent – Unenhanced

<u>Attachment "2"</u>

Southern & Willis
Bronx, New York

Project Location:	651 Southern Boulevard, 401 East 140th Street, 304 Willis Ave, 306 Willis Ave, 520 East 142nd Street
HDC Program:	Preservation
Project Description:	The project consists of the moderate rehabilitation of 5 scattered site buildings containing 76 residential units located in the Mott Haven and Woodstock neighborhoods of the Bronx. All units will be affordable to households earning at or below 80% AMI.
Total Rental Units:	74 (plus two superintendent units)

Apartment Distribution:

Unit Size	No. of Units
Studio	0
1 bedroom	27
2 bedroom	41
3 bedroom	8
4 bedroom	0
Total Units*	76

*Total Units are inclusive of two superintendent units

Expected HDC Construction Financing Amount:	$3,485,000
Expected HDC Permanent Financing Amount:	$3,485,000
Expected Total Development Cost:	$11,530,571
Owner:	Willis Southern HDFC, the fee owner, whose board of directors and officers consist of Joseph Zitolo, Thomas Metallo, and Edmund Miller, and 651 Southern Associates LP and Willis Ave Housing LP, the beneficial owners, whose principals consist of Franke Anelante, Robert Herman, Ed Miller, Joseph Zitolo, Bernard Carr, Thomas Metallo, Paula Gaccione, and Jeanne Sylvia.
Developer:	Lemle and Wolff
Credit Enhancer:	Construction – Unenhanced Permanent – REMIC