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: March 20, 2024

Re: Housing Impact Bonds, 2024 Series A and B for the NYCHA PACT Sack Wern Development and Approval of Mortgage Loans

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I am pleased to recommend that the Members approve the issuance of the Corporation's Housing Impact Bonds, 2024 Series A and 2024 Series B (the "2024 Series A Bonds" and "2024 Series B Bonds", collectively the "Bonds") in a combined amount not to exceed $89,000,000.

Proceeds will be used to finance the acquisition, rehabilitation, and permanent financing of the NYCHA developments collectively known as Sack Wern (the "Project"), which consists of the conversion of 411 units (including one superintendent's unit) in seven six-story tenant-occupied New York City Housing Authority ("NYCHA") public housing buildings to Section 8 supported multi-family housing, as 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.

Interest on the 2024 Series A Bonds is expected to be exempt from Federal and New York state and local income tax, and such bonds will qualify as tax-exempt private activity bonds with an allocation of "recycled" volume cap in accordance with the Housing and Economic Recovery Act of 2008 ("HERA"). Interest on the 2024 Series B Bonds is expected to be federally taxable but exempt from New York state and local income tax. The anticipated interest rates, maturity dates, and relevant terms of the Bonds are described herein.

The Members are asked to approve the use of the Corporation's general obligation pledge, in an amount not expected to exceed $8,900,000 plus any interest on the HDC Enhanced Mortgage Loan due.

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In addition, the Members are asked to approve the origination of a senior unenhanced non-accelerating loan (the "SUN Loan") in an amount not to exceed $30,560,000.

The Bonds are expected to be issued under the Corporation's Housing Impact Bonds Resolution (the "Impact Resolution").

Following is the background of the Impact Resolution, the proposed use of the Bonds (including their structure and security), and the Project.

Background and Status of the Housing Impact Bonds Resolution

Under the Impact Resolution, the Corporation may issue bonds (a) to finance or acquire mortgage loans for the benefit of NYCHA and NYCHA properties and (b) to refund other bond issues of the Corporation, which had financed other multi-family developments. As of October 31, 2023, there were six permanent mortgage loans held under the Impact Resolution with a total outstanding principal balance of $1,082,897,813. There are no material monetary defaults on these mortgage loans.

Proposed Uses for Bond Proceeds

The Bond proceeds are expected to fund two mortgage loans (the "Bond Loans", and together with the SUN Loan, the "Mortgage Loans") to pay a portion of the cost of acquiring, rehabilitating, and equipping the Project. The Bond Loans will be comprised of the "Freddie Mac Enhanced Mortgage Loan", representing 90% of the Bond Loans, and the "HDC Enhanced Mortgage Loan", representing 10% of the Bond Loans.

The Bond Loans are expected to have an approximate 30-year term and will be interest-only for five years, and then amortize over a 40-year amortization schedule, with a blended interest rate of approximately 6.453%. A balloon payment will be due upon maturity.

Wells Fargo Bank, N.A. will be the Freddie Mac servicer ("Wells Fargo").

Structure of the Bonds

The Members are being asked to authorize the issuance of the Bonds pursuant to multi-modal Supplemental Resolutions. Accordingly, all or a portion of the Bonds may be converted to other interest rate modes provided for in the Supplemental Resolutions such as a fixed rate or variable rate.

The Bonds are expected to be issued as described below, however, the Authorizing Resolution relating to the Bonds will provide that a senior officer of the Corporation may determine to combine supplemental resolutions or issue the Bonds as taxable or tax-exempt, in multiple issuances pursuant to the same resolution and in one or more series or sub-series as long as the total principal amount of Bonds issued does not exceed $89,000,000 and the interest rate on the Bonds does not exceed 15%. The Corporation expects to designate the Bonds as Sustainable Development Bonds.

A. 2024 Series A Bonds

It is anticipated that the 2024 Series A Bonds, in an amount not expected to exceed $44,500,000, will initially be issued as tax exempt fixed rate bonds with a true interest cost of approximately 5% during the initial Fixed Rate period, which is expected to be approximately thirty (30) years.

B. 2024 Series B Bonds

It is anticipated that the 2024 Series B Bonds, in an amount not expected to exceed $44,500,000, will initially be issued as taxable fixed rate bonds with a true interest cost of approximately 6% with a maturity date that is expected to be approximately thirty (30) years.

Security for Bonds

The Bonds are special revenue obligations of the Corporation, and payment of principal and interest on the Bonds will be secured by the revenues and assets pledged to such payment. The Bonds will be issued on a parity basis with all outstanding previous series of bonds and with all future bonds to be issued under the Resolution, secured by all collateral anticipated to be held under the Resolution. The total loan amount of the mortgages to be funded with the proceeds of the Bonds will be pledged to the Impact Resolution. Approximately $906,018.00 will be deposited into an interest reserve upon the Bond closing to ensure that sufficient funds will be available to pay the debt service on the Bonds.

Freddie Mac Supplemental Security

The Freddie Mac Enhanced Mortgage Loan is expected to be secured by supplemental security in the form of a standby credit enhancement agreement issued by Freddie Mac pursuant to which, if a payment default occurs under the Freddie Mac Enhanced Mortgage Loan, Freddie Mac will advance an amount equal to the unpaid principal amount of principal and/or interest due.

The Corporation's General Obligation Pledge

The HDC Enhanced Mortgage Loan is expected to be secured by supplemental security in the form of a funding agreement (the "HDC Funding Agreement") to be provided by the Corporation. The HDC Funding Agreement is expected to provide that if a payment default occurs under the HDC Enhanced Mortgage Loan, the Corporation will advance the unpaid amount of principal and/or interest due. This payment obligation will be a general obligation of the Corporation.

Repayments of principal and interest on the Bond Loans will be allocated first to reimburse Freddie Mac in full, and second, to reimburse the Corporation in full.

The Members are asked to approve the use of the Corporation's general obligation pledge in an amount not expected to exceed $8,900,000 plus any interest due. The general obligation pledge amount is expected to include the full principal amount of the HDC Enhanced Mortgage Loan and the interest due and payable. If a payment default occurs under the HDC Enhanced Mortgage Loan, HDC will advance an amount equal to the unpaid amount of principal and/or interest due.

As of October 31, 2023 the collateral of the Impact Resolution consisted of the following:

TYPE OF COLLATERAL	# OF LOANS	AMOUNT	% OF TOTAL
Freddie Mac Insured Mortgage Loans	3	$746,387,732	68.9%
Uninsured Permanent Mortgages	2	$47,445,081	4.4%
Fannie Mae Insured Mortgage	1	$289,065,000	26.7%
Total*	6	$1,082,897,813	100%

* May not add due to rounding

Transaction Summary and History

RAD

Approximately ten percent of the rental units (42 units) will convert to Section 8 through the United States Department of Housing and Urban Development's ("HUD") Rental Assistance Demonstration ("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").

Section 18

The remaining 368 rental units will convert to Section 8 through the Section 18 disposition process alone, accessing Tenant Protection Vouchers ("TPVs") with FMRs for 100% of units. To qualify for 100% Section 18 and corresponding TPVs, a property must meet HUD's definition of "obsolescence". This development is expected to meet the required threshold.

Project Description

The Project is comprised of 411 units across seven six-story residential buildings and one non-residential garage building located in the Soundview neighborhood of the Bronx.

Pursuant to the Section 8 contracts, the Project will be reserved for households earning no more than 50% of Area Median Income ("AMI") which is currently $70,600 for a family of four. The Project is approximately 91% occupied, with a majority of households earning below 50% of AMI. Approximately 2% of the existing tenants (7 families) are expected to be over-income but will be allowed to remain in residence (the "Over Income Units"). Upon vacancy, all units, including the Over Income Units will be rented to households earning no more than 50% of AMI. In addition to income restrictions under the Section 8 contracts, the Project will be subject to the terms of a regulatory agreement to be executed by the Corporation, the City of New York, acting by and through its Department of Housing Preservation and Development and the Borrower (the "HDC/HPD Regulatory Agreement"). The occupancy restrictions under the HDC/HPD

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, which is 99 years (the "Occupancy Restriction Period"). As part of the PACT conversion, the Project will go through a substantial tenant-in-place rehabilitation of its 410 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 baths; facade repairs and upgrades; new energy efficient windows; broadband infrastructure installation for subsidized access to broadband; mechanical and electrical upgrades; new storefronts, laundry rooms, security, and access control; full lobby and common area upgrades; new roofing systems; and lead testing and abatement.

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

<u>SUN Loan</u>

The Project is also expected to be financed with a senior unenhanced non-accelerating loan (the SUN Loan, as defined above), in an amount not to exceed $30,560,000.

The Corporation expects to fund the SUN Loan with recycled volume cap bonds under its Open Resolution but may fund the SUN Loan with its unrestricted reserves or available funds of the Open Resolution based on the availability of recycled volume cap.

The Corporation's expected funding of the SUN Loan is further described in the memorandum entitled "Multi-Family Housing Revenue Bonds, 2024 Series A and B and Approval of Mortgage Loans" to be presented to the Members concurrently herewith.

The SUN Loan will be senior, un-enhanced and non-accelerating with fixed principal and interest payments that are designed to mimic real estate taxes. The SUN Loan will have a 40-year term and will fully amortize after a five-year interest-only period . Due to the enormity of the PACT initiative goals and the limited availability of relatively low-cost financing, the Corporation developed the SUN Loan structure to leverage resources and save on costs such as third-party credit enhancement fees.

The obligation under the SUN Loan with respect to each separate year during which the SUN Loan remains outstanding, will be evidenced by a separate mortgage note ("SUN Note") and subject to a separate first lien mortgage ("SUN Mortgage"). Each SUN Note will be secured by a SUN Mortgage in the inverse order of priority (i.e., the SUN Note maturing after the first year will be secured by the SUN Mortgage that is in last position), to ensure that any foreclosure will be subject to the remaining, more senior SUN Mortgages. The only default that can occur under the SUN Loan is the failure to pay amounts due under the SUN Note for each year. The debt service coverage on the SUN Loan will be very high as described below in the Risk and Risk Mitigation section.

<u>Borrower and Developer Description</u>

In November 2021, NYCHA issued a request for proposal for a co-developer partner for the

Project. The developer selected is a joint venture between entities controlled by Douglaston Development ("Douglaston") (45% interest), Asland Capital Partners (30% interest) and Breaking Ground (25% interest), (collectively, the "Development Team").

At conversion, the Project will be leased to BG Sack Wern Housing Development Fund Corporation ("HDFC"), whose sole member is Breaking Ground II Housing Development Fund Corporation ("HDFC Sponsor").

The HDFC will serve as the nominal leasehold owner, pursuant to a 99 year ground lease from NYCHA. The Borrower will be ABA Sack Wern LLC, a single purpose entity whose sole member is ABA NYCHA LLC, whose members are ABA Sack Wern Manager LLC (99% owner) and NYCHA PACT LLC (1% owner and affiliate of NYCHA, together with an affiliate of NYC Partnership Housing Development Fund Company, Inc.). ABA Sack Wern Manager LLC is 45% owned and managed by DD Sack Wern LLC (Principals: Jeffrey E. Levine), 30% owned by Asland Sack Wern LLC (Principal: James H. Simmons III), and 25% owned by BG Sack Wern Housing Development Fund Corporation (Sole Member: HDFC Sponsor). Through this organizational structure, a wholly owned subsidiary of Douglaston will provide day-to-day decision making, and NYCHA will receive various financial benefits. including but not limited to a development fee.

Upon conversion, Clinton Management, LLC, an affiliate of Douglaston is anticipated to take over property management responsibilities for the portfolio.

The general contractor of the rehabilitation work will be Levine Builders (the "General Contractor"), also an affiliate of Douglaston.

<u>Risks and Risk Mitigation</u>

The primary risks associated with the Project are (1) construction completion risk; (2) payment default by the Borrower; and (3) refinance risk. 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, the 100% Payment and Performance bonds provided by the General Contractor, and the third-party construction monitoring expected to be overseen by an entity known as Partner Engineering. 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 Freddie Mac credit enhancement of the Freddie Mac Enhanced Mortgage Loan. In addition, the SUN Loan, as a first position loan, benefits from very high debt service coverage in excess of 4.0. For this reason, the risk of non-payment is particularly low and the Corporation will not require any additional credit enhancement with respect to the SUN Loan. As described earlier, the Corporation will be obligated to cover losses on the top 10% of the Bond Loans. The Corporation staff believes this is an acceptable risk for the reasons described above. Refinance risk is mitigated by conservative refinance assumptions.

Deposits and Fees

The Borrower will pay the Corporation its costs of financing which is expected to be approximately 1.50% of the total Mortgage Loans amount, plus an up-front commitment fee equal to 0.75% of the Mortgage Loans.

The Borrower will pay Wells Fargo an up-front origination fee equal to 1.00% of the Bond Loans.

The Borrower will pay the Corporation an ongoing annual credit enhancement fee of at least 0.35%, included in the interest rate of the Mortgage Loans.

The Borrower will pay the Corporation an annual servicing fee of at least 0.20% on the original principal balance of the Mortgage Loans.

The Borrower will pay Freddie Mac an ongoing annual guaranty fee and an annual service fee of 0.67%, included in the interest rate of the Freddie Mac Enhanced Mortgage Loan.

Rating

The 2024 Series A Bonds are expected to be rated in the Aa2 category by Moody's.

The 2024 Series B Bonds are expected to be rated in the Aa2 category by Moody's.

Underwriters or Direct Purchaser

Senior Managers:
Siebert Williams Shank & Co., L.L.C (*Senior Managing Underwriter for 2024 Series A and B*)
Barclays Capital Inc. (*Co-Senior Managing Underwriter for 2024 Series A and B*)

Co-Managers for 2024 Series A and B:
J.P. Morgan Securities, LLC
Jefferies LLC
Samuel A. Ramirez & Co., Inc.
Wells Fargo Securities
Raymond James & Associates, Inc.
Bancroft Capital, LLC
Loop Capital Markets LLC
Morgan Stanley & Co. LLC
BofA Securities, Inc.

Underwriters' Counsel

Tiber Hudson LLC

Bond Trustee

U.S. Bank Trust Company, National Association

Bond Counsel

Hawkins Delafield & Wood LLP

Disclosure Counsel

Orrick, Herrington & Sutcliffe LLP

Action by the Members

The Members are requested to approve an authorizing resolution that provides for (a) the adoption of the Supplemental Resolutions to the Impact Resolution providing for the issuance of the Bonds, (b) the distribution of preliminary and final Official Statement(s) for the Bonds, (c) 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; (d) 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; (e) the pledge to the Housing Impact Bonds Resolution of any mortgage loans of the Corporation; and (f) the execution by the President or any Authorized Officer of the Corporation of any and all documents necessary to issue the Bonds and to make the mortgage loans relating to the Bonds, including the HDC Funding Agreement.

The Members are asked to authorize the use of the Corporation's general obligation pledge in an amount not to exceed $8,900,000 plus any interest on the HDC Enhanced Mortgage Loan due.

The Members are requested to approve i) the making of a Loan in an aggregate amount not to exceed $89,000,000, which may be initially financed with the Corporation's unrestricted reserves until the issuance of the Bonds, and ii) 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 asked to authorize the origination of the SUN Loan in an amount not to exceed $30,560,000, and the mortgage-related documents and other documents necessary to accomplish the SUN Loan financing.

EXHIBIT A

PACT Sack Wern
Bronx, New York

Project Location:

1710 Lafayette Avenue
710 Croes Avenue
750 Croes Avenue
715 Noble Avenue
710 Noble Avenue
712 Noble Avenue
1810 Lafayette Avenue
740 Beach Avenue

HDC Program: NYCHA PACT

Project Description: The Project will consist of the preservation of 411 residential rental units in 7 buildings in the Soundview neighborhood of the Bronx.

Total Rental Units: 410 (plus one superintendent unit)

Apartment Distribution:

Unit Size	No. of Units
Studio	42
1 bedroom	42
2 bedroom	159
3 bedroom	168
Total Units*	411

*Total Units are inclusive of one superintendent unit

Expected HDC Construction Financing Amount: N/A

Expected HDC Permanent Financing Amount:

SUN Loan: $26,970,000
Freddie Mac Enhanced Mortgage Loan: $72,810,000
HDC Enhanced Mortgage Loan: $8,090,000

Expected Total Development Cost: $303,474,041

Owner: ABA Sack Wern LLC, the beneficial ground lessee, whose principals are Jeffrey E. Levine (DD Sack Wern LLC), James H. Simmons III (Asland Sack Wern LLC); and BG Sack Wern Housing Development Fund Corporation, the nominal ground lessee, whose sole member is the Breaking Ground II Housing Development Fund Corporation, whose board of directors and officers consists of Nicholas Tsang, Brenda Rosen, David Beer, Judith Rosenfeld, and Benjamin Stacks.

Developer: Douglaston Development, Asland Capital Partners, and Breaking Ground

Credit Enhancer:

Construction - N/A
Permanent - Freddie Mac will provide credit enhancement for the Freddie Mac Enhanced Mortgage Loan.
The HDC Funding Loan Agreement will provide enhancement for the HDC Enhanced Mortgage Loan.