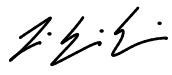




MEMORANDUM

To: The Chairperson and Members

From: Eric Enderlin 
President

Date: November 13, 2025

Re: December 2025 HPD Funding Swap Initiatives (City Project and Clusters Loans)

I am pleased to recommend that the Members approve the Corporation's use of corporate reserves in an amount not expected to exceed \$49,797,000 for the purpose of participating in a funding swap with the New York City Department of Housing Preservation and Development ("HPD"). HPD has requested that the Corporation provide funding for the following two initiatives (the "December 2025 Funding Swap Initiatives" or the "Initiatives"): (1) stabilization of existing projects in HPD's portfolio by paying down all or a portion of the senior financing (the "City Project Loans") and (2) replenishment of reserves to facilitate future rehabilitation of property for supportive housing by the City at Phase II and Phase III of the Cluster Sites (the "Clusters Loans").

Background of Proposal (City Project Loans)

The City Project Loans, in an expected aggregate amount of \$34,947,000, will be new senior or subordinate mortgage loans made by HDC to one scattered site Preservation/Year 15 project, JOE Central Brooklyn ("JOE CB") and one Mitchell-Lama cooperative development, Dayton Beach Park ("Dayton").

The Corporation entered into a permanent financing commitment for JOE CB, which was approved by the Members on May 30, 2019. However, due to construction cost overruns, rapid operating expense inflation and residential rental arrears, the project has been unable to meet the requirements memorialized within HDC's commitment and convert to permanent financing. The existing financing, which consists of a construction loan from the Community Preservation Corporation ("CPC") and HPD subordinate debt, is at risk of foreclosure. The City Project Loan for JOE CB will finance the payoff of the CPC construction loan, including any accrued interest and/or other capitally ineligible costs needed to effectuate the payoff. Because the repayment of debt is not allowable under HPD's capital eligibility guidelines, HPD has requested that the Corporation fund the City Project Loan for this project in an amount equivalent to the sum of capitally ineligible costs required to stabilize the project.

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The City Project Loan for Dayton, a Mitchell-Lama development within HPD's portfolio, will be a new loan made by the Corporation that will be subordinate to the existing permanent senior financing provided by Wells Fargo Bank and Freddie Mac. Due to rapid expense inflation and the infeasibility of increasing maintenance payments to the level necessary to support the current debt financing, Dayton is also at risk of foreclosure. As the paydown of existing debt is not allowable under HPD's capital eligibility guidelines, HPD has requested the Corporation's assistance in paying down and recasting the senior financing to reduce payments to an amount that is supportable by the project net operating income. After the paydown is complete and the project has reached financial stabilization, HPD plans to provide new subordinate financing to Dayton to fund a scope of work through one of their capital programs with deferred interest payments that will not increase the projects' paid debt service. HPD has requested that the Corporation fund the City Project Loan for Dayton in an amount equivalent to the capitally ineligible debt paydown and/or capitally ineligible soft costs related to that transaction.

Background of Proposal (Clusters Loans)

For the last 20 years, due to limited space in homeless shelters, the City of New York has housed some of the homeless population in need of shelter within privately owned apartments rented by the City and known as "Cluster Sites." Because of ongoing issues with the condition of these apartments, Mayor Bill DeBlasio announced in 2016 and in the report "Turning the Tide on Homelessness" that the City would end the use of Cluster Sites for temporary housing and convert these buildings into permanent affordable housing. The first phase of this effort was enabled by the Members' approval on March 28, 2019 of the use of corporate reserves (not to exceed \$6,600,000) to help fund the acquisition of 729 units within 21 buildings. On January 27, 2020, the Members authorized additional corporate reserves (not to exceed \$27,140,000) to fund the acquisition of future phases of the Cluster Sites and to enable their conversion of those units to permanent supportive housing. To date, the Corporation has made Clusters Loans to Clusters Phases I, II and III in the amount of \$28,648,832.

At the time of those previous authorizations, HPD anticipated closing on acquisition and rehabilitation financing for all the Cluster Sites by 2021. The acquisition closings for all phases were completed by 2021, but the rehabilitation financing closings for Clusters Phase II and III have not yet taken place. HPD has requested that HDC provide additional funding, in an expected amount of \$14,850,000, to replenish the operating reserve accounts so that these projects can continue to meet operational stability needs (including insurance expenses, operating deficits due to physical and economic vacancy prior to rehabilitation, and emergency repair needs) while the development teams work towards closing.

The funding of operating reserves is not considered an eligible capital expense for City Capital funds. HPD is therefore requesting that the Corporation make one or more loans to replenish the reserves for Clusters Phase II and III.

Proposed Structure and Terms

The City Project Loans and Clusters Loans originated pursuant to the Initiatives will be subject to one or more interagency Memorandums of Understanding ("MOUs") between the Corporation and

HPD. The MOUs will provide that the Corporation establish dedicated account(s) (the “Dedicated Accounts”) in an amount not expected to exceed \$49,797,000 from corporate reserves to be used to fund the Initiatives.

In exchange for the Corporation’s allocation of corporate reserves to the City Project Loans, HPD will grant City Capital funds to HDC pursuant to Section 661 of the Private Housing Finance Law to partially fund the subsidy loans on one or more new construction projects financed by the Corporation (the “HDC Project Loans”) in an amount equal to the Corporation’s allocation to the Dedicated Account. HPD’s financing of the HDC Project Loans will be in lieu of the Corporation using its own corporate reserves for such loans pursuant to the Corporation’s programs and term sheets.

The City Project Loans and Clusters Loans originated pursuant to the MOUs will be subject to HPD’s programmatic and negotiated terms. HPD program staff will underwrite and close each of the loans and will provide diligence to the Corporation as required by the MOUs ahead of the loan closings. The City Project Loans and Clusters Loans will be made in the Corporation’s name and will be assigned to HPD at closing. For the Clusters Loans, HPD will also underwrite, perform due diligence and close the future rehabilitation financing transactions without the Corporation’s involvement.

Use of Corporate Reserves vs. City Capital Funds

The Corporation’s reserves relate to the unrestricted funds of the Corporation that can be used, pursuant to Members’ approval, to fund any statutorily permitted activities of the Corporation. These monies are generally derived from the Corporation’s business activities which may include income from investments, spread from its mortgage lending and fees that the Corporation charges its borrowers for its servicing, loan origination and asset management oversight. The term “City Capital” generally refers to capital raised by the City from its borrowing and can be expended pursuant to certain requirements established in the City’s charter and the New York State Local Finance Law. These requirements detail what are capitally eligible expenses and the related minimum useful life term for City Capital funds. As related to this memo the expenses that are necessary for the Initiatives would not be capitally eligible and as such the City and HPD are requesting the use of HDC corporate reserves to fund such expenses, and the City will subsequently swap City Capital funds for HDC Project Loans that are eligible uses.

Fees and Earnings

The Clusters Loans and the City Project Loans will be fully advanced at loan closing are not expected to require any servicing by the Corporation, therefore the Corporation does not expect to receive any servicing fees. However, the City Project Loan for JOE CB will close as a bridge loan to permanent conversion and any servicing that is required will be performed by HPD. For the City Project Loans, HPD will enter into a regulatory agreement that places income restrictions on a portion of the units to be determined by HPD and outlines their asset management oversight functions.

Risks and Risk Mitigation

The MOUs will require the one-for-one swap of City Capital for corporate reserves, and vice versa, within the affected loans. All repayment risk associated with City Project Loans and Clusters Loans made through the Dedicated Account will be HPD's risk. Also, any costs or expenses incurred by the Corporation for bank fees and investment breakage fees in connection with the performance of its duties shall be paid by HPD from the Dedicated Account.

While the funding swap will not increase the Corporation's risk and the project-level underwriting for the HDC Project Loans will not be impacted by the use of City Capital as a partial funding source, the Initiatives will limit: (i) the flexibility of the use of proceeds that would have been possible if the Corporation were funding the loan with its corporate reserves, and (ii) the ability to pledge the HDC Project Loans to a bond indenture and issue bonds which allows the Corporation to securitize the HDC Project Loans' cash flows and raise proceeds for future lending. The Corporation regularly securitizes the cash flows from its subsidy loans made on new construction projects to augment HDC's future lending capacity, but the form of grant agreement required by OMB to grant funds precludes HDC subsidy loans funded by City Capital through a funding swap to be pledged to a bond indenture and securitized to raise proceeds. Due to this restriction, the swap will result in a decrease of the Corporation's ability to issue \$49,797,000 of bonds that could otherwise generate proceeds to be used for future lending capacity. This is a limitation of this program that is currently under discussion. To date, and inclusive of the previous Cluster Sites financings, the Corporation has made such swap loans in a combined total of approximately \$250,000,000.

Action by the Members

The Members are requested to approve (i) the use of up to \$49,797,000 of the Corporation's reserves to fund the December 2025 Funding Swap Initiatives Dedicated Account for the making of City Project Loans and Clusters Loans and (ii) the execution by an Authorized Officer of the Corporation of mortgage-related documents and any other documents necessary to accomplish the making of the City Project Loans and Clusters Loans.