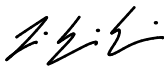




**M E M O R A N D U M**

**To:** The Chairperson and Members

**From:** Eric Enderlin  
President 

**Date:** May 28, 2026

**Re:** HPD Funding Swap Initiatives (City Project Loans)

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I am pleased to recommend that the Members approve the Corporation’s use of corporate reserves in an amount not to exceed \$35,000,000 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 two initiatives (the “June 2026 Funding Swap Initiatives” or the “Initiatives”): (1) an initiative to enable the conversion to permanent financing of certain City-funded project(s) (the “HPD Workout Loans”); and (2) an initiative to enable the provision of new HPD capital financing for Mitchell-Lama developments within the Corporation’s portfolio (the “ML Rehab Loans” and, collectively with the HPD Workout Loans, the “City Project Loans”).

**Background of Proposal**

On June 4, 2024, the Members authorized the Corporation’s use of corporate reserves (not to exceed \$17,000,000) to fund a similar set of HPD Funding Swap Initiatives. To date, the Corporation has made loans to three projects under this authority in the combined amount of \$6,905,000. The Members are now requested to approve an additional amount up to \$35,000,000 which, along with the remaining authority under the 2024 approval, will enable the construction closing or permanent conversion of additional HPD projects.

The HPD Workout Loans will be new subordinate mortgage loans made by HPD or made by the Corporation, using grant funds from HPD (other than the portion that the Corporation will fund as described below in either case) to projects with existing HPD, HDC, and/or private construction financing that have experienced cost overruns prior to permanent conversion. The HPD Workout Loans will finance the completion of scopes of work, the establishment of upfront project reserves and any soft costs necessary for conversion to permanent financing (including construction interest and servicing fees, mortgage insurance premiums and/or borrower/bank legal costs). Because the projects cannot leverage additional senior financing, and HPD’s financing is limited by capital eligibility guidelines, HPD has requested that the Corporation fund a portion of the HPD Workout Loans equivalent to the sum total of capially ineligible costs required to complete the projects.

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In June 2019, the Corporation entered into a permanent financing commitment for the Cleo Jenkins Portfolio (“Cleo Jenkins”), which was approved by the Members on May 30, 2019. However, due to rapid operating expense inflation and residential rental arrears, the project was delayed in meeting the requirements to convert to permanent financing memorialized within the Corporation’s commitment. The existing financing, which consists of a construction loan from Citibank, N.A. (“Citibank”) and HPD subordinate debt, is at risk of foreclosure. With additional income from Project-Based Section 8 Vouchers in place, the project is now positioned to close on the permanent financing committed by the Corporation in 2019. If approved by Members, the Corporation will make a new permanent subordinate loan under the requested HPD Workouts Loan authority (the “Cleo Jenkins Loan”) to enable permanent conversion of the project. The Cleo Jenkins Loan will be used to finance the payoff of accrued interest on the Citibank construction loan, the completion of an additional scope of work that has been identified since 2019, the establishment of upfront project reserves and certain soft costs necessary for conversion to permanent financing (including mortgage insurance premiums and/or borrower/bank legal costs). Because the repayment of debt and the funding of certain other expenses is not allowable under HPD’s capital eligibility guidelines, HPD has requested that the Corporation fund the Cleo Jenkins Loan in an amount equivalent to the sum of capitally ineligible costs required to stabilize the project. HPD Workout Loans to be made under the authority requested herein will be mutually determined by HPD and HDC with OMB approval.

The ML Rehab Loans will be new subordinate loans made by the Corporation using grant funds from HPD (other than the portion that the Corporation will provide as described below), to Mitchell-Lama cooperative and rental projects that have existing HDC senior permanent financing. The projects have significant capital needs but have been unable to support refinancing of their existing HDC senior loans due to recent operating expense inflation (particularly insurance costs) and current interest rates. HPD plans to provide new subordinate financing to these projects to fund scopes of work through their capital programs with deferred interest payments that do not increase the projects’ paid debt service. The project budgets include certain capitally ineligible costs, such as borrower’s legal, the replenishment of project reserves and mortgage escrows, the payoff of certain vendor payables and the repayment of Corporation or private lender debt and/or arrears. HPD has requested that the Corporation fund a portion of the ML Rehab Loans equivalent to the sum of the capitally ineligible costs related to the rehab financing. ML Rehab Loans to be made under the authority requested herein will be mutually determined by HPD and HDC with OMB approval.

### **Proposed Structure and Terms**

The City Project Loans originated pursuant to the Initiatives will be subject to an interagency Memorandum of Understanding (“MOU”) between the Corporation and HPD. The MOU will provide that the Corporation establish a dedicated account (“Dedicated Account”) equal to the OMB approved amount up to \$35,000,000 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 and subject to OMB approval, HPD will grant City Capital funds to the Corporation pursuant to Section 661 of the Private Housing Finance Law to partially fund Corporation loans on one or more 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 originated pursuant to the MOU will be subject to HPD's program terms. HPD program staff will underwrite the transactions with the assistance of HDC Development and will provide diligence to the Corporation as required by the MOU ahead of the loan closing. The Corporation-funded portion of the City Project Loans will be made in the Corporation's name and may be assigned to HPD. All projects receiving a City Project Loan have or will have a regulatory agreement with the Corporation and/or HPD that will include income restrictions for the project. HDC Engineering is expected to provide construction monitoring of the scopes of work for all the City Project Loans, with the exception of one project that will be monitored by the Community Preservation Corporation pursuant to an agreement with HPD.

### **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 Corporation is anticipated to be the servicer of the City Project Loans (although HPD may service certain City Project Loans), and servicing fees are expected to be waived.

### **Risks and Risk Mitigation**

The MOU 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 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 the flexibility of the use of proceeds that would have been possible if the Corporation were funding the loan with its corporate reserves.

**Action by the Members**

The Members are requested to approve (i) the use of up to \$35,000,000 of the Corporation's reserves to fund the June 2026 Funding Swap Initiatives Dedicated Account for the making of City Project 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.