Presentation
on

New York City Housing Development Corporation
and the use of Recycled Private Activity Bonds

December 19, 2019

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Overview of the NYC Housing Development Corporation

- Established in 1971 under laws of the State of New York as a public benefit corporation for the purpose of financing affordable multi-family housing in the City of New York
- Governed by 7-member Board of Directors appointed by Mayor and Governor; chaired by Commissioner of NYC Department of Housing Preservation and Development
- A staff of 180 manages over $19.4 billion of assets, including a multi-family portfolio of over 200,000 units with $12.8 billion in mortgage loans and loan interests as of October 31, 2018
- Top-ranked issuer in the nation of affordable multi-family housing bonds in 2012 (#1), 2013 (#1), 2014 (#1), 2015 (#2), 2016 (#2), 2017 (#2) and 2018 (#1) by principal amount*
  - CY 2014 was a record year with a total issuance of $1.9 billion
  - $30.2 billion of mortgage revenue bonds issued since inception
  - $11.89 billion of bonds outstanding as of December 31, 2018
- General obligation of HDC rated Aa2/AA by Moody's and Standard & Poor's, respectively
- Separately capitalized, mortgage insurer (REMIC) rated AA by S&P.

*Source: Thomson Reuters Securities Data Corporation as of 12/31/18.

Private Activity Bonds for Housing

- **Qualified residential rental projects:**
  - Bond proceeds are used to finance new construction or acquisition and rehabilitation of housing for persons with low and moderate incomes

- **To be for low and moderate income persons**:
  - 20% of the units must be for people earning 50% of median income or 40% of the units must be for people earning 60% of median income
    - In NYC, it is 25% at 60% of median income because this is such a high-cost region

HDC Multi-Family Developments

ELLA Program

980 Westchester Ave, Bronx

Chestnut Commons, Brooklyn

Mixed-Middle (M^2) Program

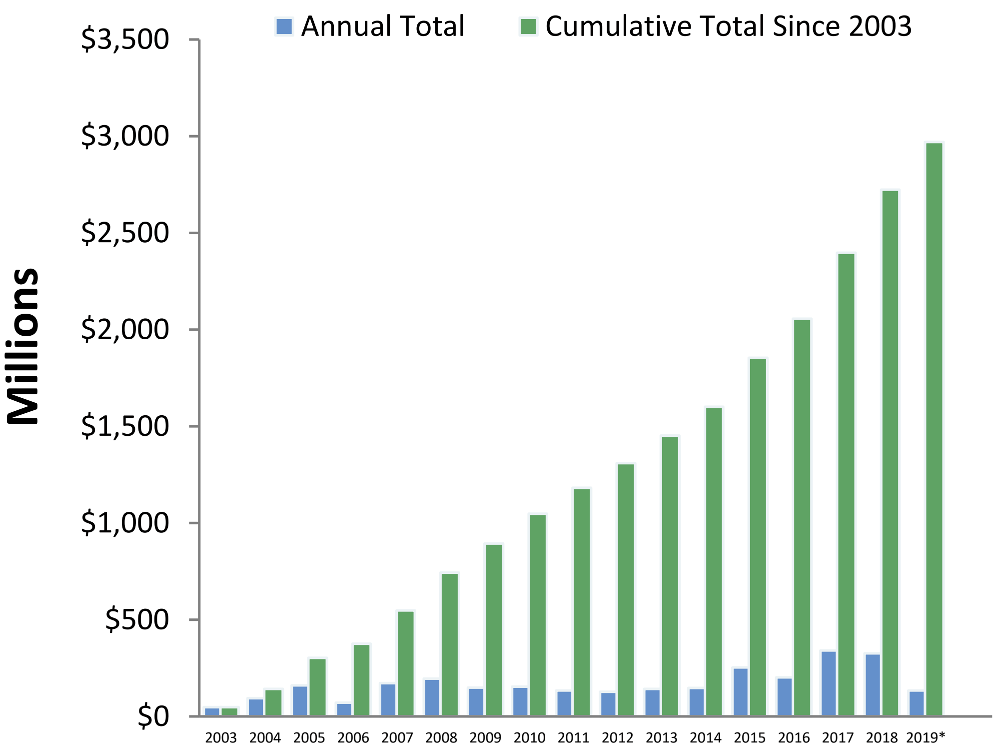
Hunters Point South F &G, Queens

Mix and Match Program

Jamaica 2, Queens

Leveraging HDC's Subsidy Loans

As of September 30, 2019, the Corporation has provided over $2.97 billion in subsidy loans across all Programs, including the Multi-Family Housing Revenue Bond Program



Leveraging Subordinate Permanent Loans: Securitization

- HDC is able to leverage these 1% subsidy loans by securitizing them
  - Since 2003, HDC has generated approximately $1.02 billion in securitization proceeds as of September 2019.
- These securitization proceeds, along with the excess spread generated under the Open Resolution, continue to provide significant funds for additional HDC subsidy.
  - This additional subsidy, once it is loaned out, can be securitized at a future date
- Securitizing on taxable / tax-exempt basis
  - HDC's securitizations in April & June 2016, October & December 2017, April, October & December 2018 and March, June & September 2019 were on tax-exempt basis where recycled bonds were issued to finance the subsidy loans.
  - It's easier to use this tax-exempt securitization for new projects as the additional bonds have to be included in the 95/5.

*Subsidy loans as of September 30, 2019.

Competition for Volume Cap

- New York State gets an allocation of approximately $2 Billion in bonds that can be used for private activities.
- The State then allocates 1/3 of the cap to state issuers, 1/3 to local issuers and 1/3 is held in reserve.
- New York City gets a share of the local amount equal to its percentage of the state’s population. Overall this allocation is around 14% of the total allocation ($305 million in 2019).
    - Additional allocations are made to NYCHDC pursuant to specific requests but the demand for bonds exceeds the amount available
    - HDC manages its pipeline in conjunction with the City to best use volume cap for affordable housing
- NYS HFA is also an active issuer of bonds for affordable housing throughout the State.
- Currently there is a lot of competition for volume cap, the process can be complex and HDC has sought alternative finance vehicles

Tax Exempt Bonds vs. Taxable Bonds

- In normal capital markets tax exempt bonds are priced significantly lower than taxable but the markets have been not fully functional since the economic downturn.

- Housing bonds had underperformed municipals generally and were damaged because of housing concerns in the market.

- Some issuers do make taxable loans for projects that don't qualify for tax exempt status but are still important to the housing agencies mission—this can include housing for middle income people that don't meet the low income requirements.

- Taxable bonds can be used for pooling or securitization of non-qualifying loans such as subsidy loans, etc.

Recycled Bonds Background

- Recycled Bonds recognize the value of preserving volume cap for affordable housing by re-using bond authority that used to be burned off in traditional tax credit transactions and is similar to recycling authority for single family housing revenue bonds.

- Enacted into Federal Law under the Housing and Economic Recovery Act of 2008 (Section 3007).

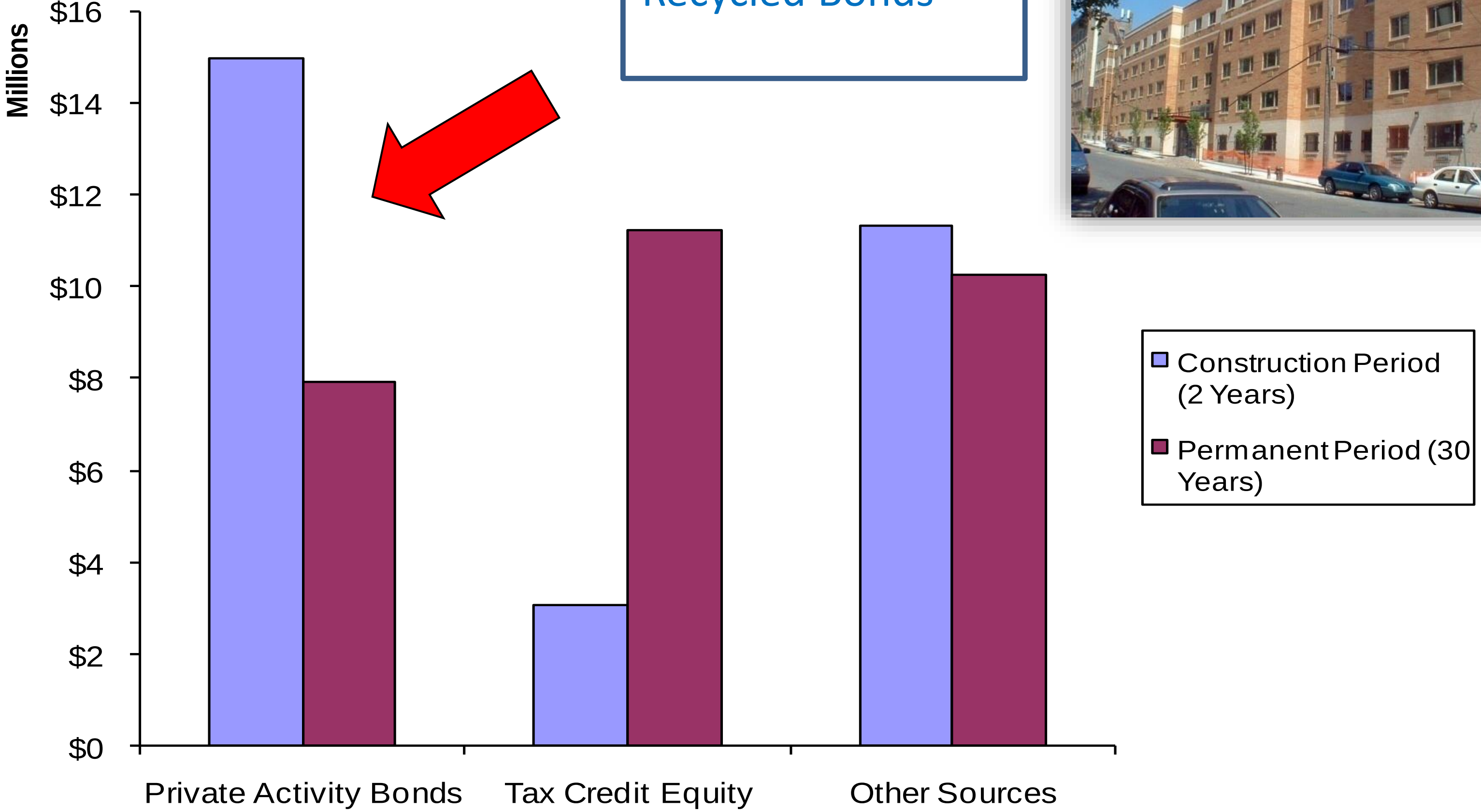
- HDC has recycled approximately $3 billion in bonds and financed 120 projects with over 35,000 units.

- HDC has transferred approximately $500 million in recycling capacity to NYS HFA and HFA transferred $43 million to HDC in 2019

Example of Recycling Volume Cap
Courtlandt Avenue Apartments, the Bronx

<u>PENALTY:</u>
$7.1 million lost after two years

<u>SOLUTION</u> Create Recycled Bonds



Rules for Recycled Bonds

- The bond refunding must occur within 4 years of the initial issuance for an eligible rental housing project originally financed with private activity bonds.
- Requires new loan to an eligible project within 6 months of the effective date of the prepayment.
- Recycled bonds can only go out a total of 34 years from the initial bond issuance.
- The new project is subject to public notice requirements (TEFRA) prior to the issuance of the refunding bonds.
- Recycled bonds are not eligible for LIHTC.
- Projects using recycled bonds must follow tax exempt bonds rules for household income affordability.

Benefits of Recycled Bonds

- In states where there is a scarcity of volume cap recycling creates additional financing capacity.
- Allows Issuers to prioritize their use of new money volume cap allocated for multifamily housing to be used on projects which need “as of right” LIHTC, maximizing public benefits.
- Recycling is a tool to encourage more affordability in mixed income projects. Such projects need to satisfy the normal tax exempt bond rules of affordability in order to qualify for the tax exempt financing.
- Permits more efficient use of volume cap for 80/20 financings with a portion of the bonds that are in excess of the 50% requirement (for LIHTC) utilize recycled cap.
- Permits more efficient use of volume cap and leveraging private financing through use of “bifurcated” condominiums structure.

Limitations of Recycling

- Recycled bonds are limited by supply and demand constraints.
  - Supply is limited because only HFAs that issue a great deal of private activity bonds for deals with tax credits will have large prepayments available for recycling.
  - Demand is limited because most multifamily housing requires significant subsidies and thus need LIHTC and demand for recycling would go up if volume cap was less available than is the case generally today.
  - HDC is unusual because we have such affordable housing needs across income spectrums that we subsidize housing at non-tax credit levels and have historically been private activity bond cap constrained.

Challenges of Recycling

- Six months is not a great deal of time to arrange a new financing for an eligible project.
- The original debt must be refunded before the original bonds are redeemed.
- Prepayments need to be coordinated and timed to allow for refunding of the initial debt.
- Timing must be coordinated with loan prepayments, especially if the volume cap will be used by a different issuer than the original lender
- HDC has had to use convertible option bonds (“COBs”) as a vehicle to refund the original bonds in a manner which allows the original projects to prepay their debt.
  – The need to use COBs has meant that HDC has had significant costs in order to preserve the volume cap. A change in law would greatly reduce the cost of recycling to an issuer.

Proposed Changes for Recycling in AHCIA

- **Section 601 of the Affordable Housing Credit Improvement Act of 2019 (“AHCIA”) has advantageous terms to improve recycling.**
- Expand the use of recycled bonds to owner-occupied residences under Section 143(a)(2)(A). This would allow states to use these resources to finance homeownership. States could then devote more “new” volume cap to residential rental projects that would be eligible for 4 percent Low Income Housing Tax Credits.
  - Initial proposal also allowed for recycling to any exempt facility under Section 142(a). This provision would allow more uses for recycling.
- Section 601 of the AHCIA amends the Internal Revenue Code of 1986 to clarify that one recycling loan can be made irrespective of any intervening refundings that may be necessary to effectuate such loan.
  - We believe that this is a technical amendment with no additional cost. This provision would save issuers from having to issue convertible option bonds or other bonds prior to the issuance of the bonds for the recycling loan.
- It also increases the window for making the recycling loan from six months to one year.
  - Even with a large pipeline, HDC has struggled to make loans in 6 months. We believe that this will have minimal costs but will reduce the pressure to make loans before projects are ready in order to preserve the volume cap.

Recycled Bonds as Preservation Tool: Tivoli Towers

- Tivoli Towers is a 320 unit rental tower in the Crown Heights section of Brooklyn.
- Originally built in 1975; Tivoli has a Section 236 contract.
- Decoupling the contract led to rents (with most tenants getting enhanced vouchers) that are higher than would be normally eligible for tax exempt bonds.
- Underwriting to the decoupled rents allowed for more bond proceeds than would have happened in a tax credit deal.
- Significant rehab funds provided under recycled loan.

Tivoli Towers

Recycled Bonds: \$37.2 Million

Funds for Rehab: \$16 Million

Restructured 2nd Loan: \$6 Million

St. Ann's Prior to Construction

Use of Recycled Bonds at St. Ann's Terrace

- St. Ann's Terrace is the nation's first moderate-income housing complex to use recycled bonds.
- Developed on a 3.5-acre site formerly zoned for industrial use in the Melrose neighborhood of the South Bronx.
- St. Ann's Terrace is a mixed-use development with more than 600 residential units, 45,000-square-feet of ground floor commercial space and underground parking.
- The moderate income component financed with recycled bonds includes 166 units and commercial space.

St. Ann's Terrace Fully Constructed.

St. Ann's Terrace has converted to perm.
Recycled Bond: $25.8 million
1% Subsidy Loan: $14.1 million

ABH Mixed-Income Financing

Financed with HDC Fixed-Rate Tax-Exempt Recycled Bond Proceeds and Subsidy through HDC's New Housing Opportunities Program (New HOP) and HPD's Mixed Income Rental Program (MIRP). Extended 421a benefits for residential and ICAP for retail/parking to abate taxes for 25 years.

USES: Const. & Perm.	Total	Per Unit	% of Total	Notes
Acquisition Cost	$11,200,000	$67,470	16.18%	$40 PSF (Part of $24MM Total)
Construction Cost	$46,882,039	$282,422	67.74%	$185 Per Residential SF; Average $80 PSF on Retail/Parking
Soft Cost	$11,123,754	$67,011	16.07%	$40 PSF- No Developer Fee
TOTAL USES	$69,205,793	$416,902	100.00%	

- Acquisition Costs not distributed proportionately, but rather by what each project could support.

SOURCES: Const. & Perm.	Total	Per Unit	% of Total	Notes
HDC TE Recycled	$25,830,000	$155,602	37.32%	5.5 % Base, 6.2% at Perm
HDC Second Mortgage	$14,110,000	$85,000	20.39%	1% Interest Only (I/O)
HPD 3rd City Capital	$13,898,350	$83,725	20.08%	1% I/O 100% Deferred @ Perm.
Reso A Funds	$1,500,000	$9,036	2.17%	0% Interest
Developer Equity	$13,867,443	$83,539	20.04%	New HOP Program requires 10%
TOTAL SOURCES	$69,205,793	$416,902	100.00%	

- 1st Perm Loan term restricted to 28 years by Recycled Bond Legislation Constraints. Amortization based on 35 yrs.

Bifurcated Structures

- Creatively uses condominium structure as a tool for mixed income financings where only the low income units are financed with private activity bonds and LIHTC.
- Mixed income developers have the following priorities:
  - Qualify for property tax exemptions (in NY §421(a) Real Property Tax)
  - Finance qualifying units with LIHTC
  - Lower financing costs by utilizing tax-exempt bond financing
- In a Bifurcated Deal:
  - All units targeting low-income tenants are owned in a single condominium unit by a single purpose entity and financed using Tax-Exempt Bonds
  - All other units (*e.g.*, market-rate, commercial) are owned in a separate condominium unit or units by a different entity. These are financed using Taxable Bonds or traditional bank loans.

Bifurcated Structures (Cont'd)

- By financing only the low income units instead of all units with tax-exempt bonds, the amount of volume cap needed to meet the 50% test is greatly reduced.

- There is no need for deep rent skewing and annual income certification since all of the units in the tax-exempt financed condo are low income and satisfy the LIHTC requirements.

- Under federal law, only the low income condo is considered a low income building and the market component is irrelevant, but for New York law, the development is considered to be one unified building and will qualify for the §421(a) real property tax abatement.

Bifurcated Structures (Cont'd)

- The bifurcated structure allows the developer to sell the credits for the low income units without allocating the tax credit investor the income from the market rate units.

- Tax credit investors may prefer this structure because:
  - They are able to acquire the credits and the losses generated by the low income units
  - Once construction is completed and the low income units are placed in service, the tax-exempt debt is retired with the proceeds of the tax credits. There is no permanent tax-exempt debt outstanding for the low income units.
  - Compliance is easier on an all low-income development.

Recycled Bond Analysis in Mixed Income Developments

Total Tax Exempt Bonds Issued	**$131,315,000**
Total Development Costs	$275,866,884.00
Qualified Costs (80% of total development costs as per preliminary 95-5)	$220,693,507.20
Land Costs (split pro-rata between LIHTC & Non-LIHTC Units)	$8,525,000.00
LIHTC Units Share of Qualified Costs (20.238% of Qual'd Costs as per preliminary 95-5)	$44,663,951.99
Based on lower of: 1) % of LIHTC Unit SF to total building SF	
2) % of LIHTC Unit to total Units	
3) % of LIHTC Unit Hard Costs to total Hard Costs	
Volume Cap Bonds Required to Meet 50% Test for LIHTC Units (assumes 51.5% for cushion)	$23,001,935.27
Maximum Permitted Recycled Bonds on LIHTC Units	$21,662,016.71
(Difference between Volume Cap Bonds and LIHTC Share of Qualified Costs)	
Volume Cap Bonds Required on Moderate/Middle Income Units	$0.00
Maximum Permitted Recycled Bonds on Non-LIHTC Units	$86,648,066.86
4x Maximum Permitted Recycled Bonds on LIHTC Units	
Total New Issue Bonds (rounded to nearest $5,000)	$23,005,000
Total Recycled Bonds, LIHTC + Non-LIHTC Units (rounded to nearest $5,000)	$108,310,000
Total Tax-Exempt Bonds	**$131,315,000**

Case Study: Bronx Commons (Melrose, The Bronx)

<u>305 total units</u>

- 16 units reserved for Formerly Homeless
- 166 Low-Income units affordable to households between 30% and 60% AMI
- 122 Middle-Income units with rents between 70% and 90% AMI
- 1 superintendent

The Bifurcated Structure saved approximately $30 million in volume cap

Case Study: Bronx Commons (Melrose, The Bronx)

Construction Sources	
HDC 1st Mortgage	$61,770,000
HDC Volume Cap	*$48,555,000*
HDC Recycled Bonds	*$13,214,000*
HDC 2nd Mortgage	$26,386,513
HPD 3rd Mortgage	$40,177,800
HPD 4th Mortgage (Our Space)	$2,240,000
HPD Reso A Mortgage	$7,857,000
Accrued Interest	$4,347,881
Private Funds for BMHC	$811,483
LIHTC Equity	$2,367,903
WHEDco Sponsor Loan	$300,000
Deferred Developer's Fee	$16,127,000
Deferred Reserves	$1,897,684
Citi DOJ Subsidy	$1,000,000
Total Construction Sources	**$165,283,265**

Uses	
Acquisition Cost	$275,003
Construction Cost	$120,716,499
Soft Cost	$27,064,763
Developer's Fee	$17,227,000
Total Uses	**$165,283,265**

Permanent Sources	
HDC 1st Mortgage	$21,525,000
HDC 2nd Mortgage	$26,386,513
HPD 3rd Mortgage	$40,177,800
HPD 4th Mortgage (Our Space)	$2,240,000
HPD Reso A Mortgage	$7,857,000
Accrued Interest	$4,347,881
NYS CIF	$1,000,000
Private Funds for BMHC	$811,483
SLIHC Equity	$4,420,000
LIHTC Equity	$45,831,939
Deferred Developer's Fee	$5,336,703
Solar Credit	$548,945
WHEDco Sponsor Loan	$300,000
Citi DOJ Subsidy	$1,000,000
Developer Equity	$3,500,000
Total Permanent Sources	**$165,283,265**

Case Study: One Flushing (Flushing, Queens)

<u>232 total units</u>

- 117 Permanently Affordable Low-Income units, including 66 units set aside for Seniors
  - 10 units affordable to households at or below 40% AMI
  - 56 units affordable to households at or below 50% AMI
  - 51 units affordable to households at or below 60% AMI
- 54 units affordable to households at or below 100% AMI (with rents at 80% AMI)
- 60 units affordable to households at or below 130% AMI (with rents set at 100% AMI)
- 1 superintendent unit

The Bifurcated Structure saved approximately $33 million in volume cap

Case Study: One Flushing (232-Unit Development in Flushing, Queens)

Construction Sources	
HDC 1st Mortgage	$55,470,000
HDC Volume Cap	*$23,595,000*
HDC Recycled Bonds	*$31,875,000*
HDC 2nd Mortgage	$14,502,852
HDC 2nd Mortgage Accrued and Deferred Interest	$494,547
HDC 3rd Mortgage (City Capital & Reso A Funds Granted from HPD to HDC)	$15,449,852
HDC 3rd Mortgage (City Capital & Reso A Funds Granted from HPD to HDC) – Accrued and Deferred Interest	$951,711
HDC 4th Mortgage (Goldman Sachs DOJ Grant Funds)	$5,100,000
HDC 4th Mortgage (Goldman Sachs DOJ Grant Funds) – Accrued and Deferred Interest	$35,063
Citibank DOJ Funds	$2,220,000
Citibank DOJ Funds – Accrued and Deferred Interest	$61,050
Developer Equity (BCP Funding)	$2,000,000
HPD 5th Mortgage – OER Jump Start	$250,000
NYSERDA Capital Contribution	$103,950
LIHTC Equity	$4,371,500
Deferred Developer's Fee	$8,256,575
Other (Reserves Deferred During Construction)	$1,694,856
Developer Equity	$5,000,000
Total Construction Sources	**$115,961,956**

Permanent Sources	
HDC 1st Mortgage	$42,785,000
HDC Volume Cap	*$10,910,000*
HDC Recycled Bonds	*$31,875,000*
HDC 2nd Mortgage	$14,502,852
HDC 2nd Mortgage Accrued and Deferred Interest	$494,547
HDC 3rd Mortgage (City Capital & Reso A Funds Granted from HPD to HDC)	$15,449,852
HDC 3rd Mortgage (City Capital & Reso A Funds Granted from HPD to HDC) – Accrued and Deferred Interest	$951,711
HDC 4th Mortgage (Goldman Sachs DOJ Grant Funds)	$5,100,000
HDC 4th Mortgage (Goldman Sachs DOJ Grant Funds) – Accrued and Deferred Interest	$35,063
Citibank DOJ Funds	$2,220,000
Citibank DOJ Funds – Accrued and Deferred Interest	$61,050
Developer Equity (BCP Funding)	$2,000,000
HPD 5th Mortgage – OER Jump Start	$250,000
NYSERDA Capital Contribution	$207,900
LIHTC Equity	$21,443,000
Deferred Developer's Fee	$5,460,981
Other (Reserves Deferred During Construction)	$0
Developer Equity	$5,000,000
Total Construction Sources	**$115,961,956**

Uses	
Acquisition Cost	$2
Construction Cost	$82,757,200
Soft Cost	$24,638,179
Developer's Fee Residential	$8,566,575
Total Uses	**$115,961,956**

NYCHA PACT Program

- The Permanent Affordability Commitment Together (PACT) Program establishes 62K unit program to address ~$12.8B of capital need over 10 years.
- NYCHA will lease developments to for-profit and/or not-for-profit Mortgagors, formed to provide property management, financing, and rehabilitation of the developments.
- NYCHA will retain ownership of the land on which a development is located and will lease the land to the Mortgagor, as tenant. NYCHA will also maintain oversight over all major decisions including any material change in affordability.
- Developments receiving financing will be converted from public housing subsidy to Section 8 subsidy pursuant to HUD's Rental Assistance Demonstration ("RAD") program, the Section 18 disposition process or the Part 200 disposition process.

Recycled Bonds for NYCHA PACT Program

- HDC is working to finance the rehabilitation of NYCHA's housing stock through a conventional debt + equity model, with New York City subsidy filling in gaps.
  - Consistent with preservation financing strategy with no tax credits, no new volume cap allocated to such transactions
  - Preservation equity investors will make long-term investments that may include Opportunity Zone Fund investments
- In January 2020, HDC expects to establish the **Multifamily Housing Impact Bonds Bond Parity Resolution ("HIB Resolution")** to finance mortgage loans for the long-term preservation of NYCHA developments.
  - Of the $375 million to be issued under the HIB Resolution in January 2020, approximately $226 million will be recycled bonds and the balance is taxable.
  - This strategy allows HDC to allocate recycled bond prepayments to the NYCHA PACT Brooklyn Bundle and preserve new volume cap for new construction multifamily developments.

Questions & Answers

Please visit our website: www.nychdc.com

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