

**MINUTES OF THE 23rd MEETING OF THE
NEW YORK STATE HOUSING FINANCE AGENCY'S
FINANCE AND PROGRAM COMMITTEE
HELD ON APRIL 11, 2013 AT 8:54 A.M
AT ITS OFFICES AT 641 LEXINGTON AVENUE**

MEMBERS AND DESIGNEES

PRESENT

William J. Mulrow	Chairman
Elaine McCann	Division of the Budget, representing Robert Megna, Member (via video conference)
Darryl C. Towns	Member

Chairman William J. Mulrow opened and chaired the meetings. He noted that Elaine McCann was participating in the meeting by video conference from the New York State Division of Budget conference center at the Capitol Building, Room 131, in Albany. A public notice was given of the time and location of that venue.

Alejandro J. Valella, Vice President and Deputy Counsel of the Agencies, acted as Secretary and Joseph Palozzola, Vice President of Intergovernmental Relations assisted Mr. Valella.

Chairman Mulrow asked for a motion and a second to call the meeting to order of the New York State Housing Finance Agency Finance and Program Committee meeting. Commissioner Towns made a motion to call the HFA Finance and Program Committee meeting to order; Ms. McCann seconded the motion.

Commissioner Thomas Mattox of the New York State Department of Taxation and Finance, Mr. Kenneth M. Bialo, Mr. Steven Weiss, Mr. Don Lebowitz, Ms. Marge Rogatz and Ms. Susan Watson attended this meeting as guests.

The first item on the agenda was the approval of the minutes of the 22nd HFA Finance and Program Committee held on November 8, 2012, which minutes were deemed approved, absent corrections from the Members.

The next item on the agenda was a resolution recommending the approval of resolutions authorizing issuance of bonds to fund acquisition of the New York State Urban Development Corporation (UDC) Mitchell Lama loan portfolio. Ms. Zucker stated that approval of this bond issue would allow HFA to take the first step in implementing the Governor's initiative to transfer the remaining Mitchell Lama mortgages held by ESDC to HFA. She stated that the request consisted of three components: (i) the approval of a bond issue which will fund the one-time payment to UDC; (ii) the approval of a term sheet and a letter agreement outlining the business terms between UDC and HFA; and (iii) the approval of a contract with Greystone servicing which currently services this loan portfolio to continue to service the loans on an interim basis. Ms. Zucker said that this Mitchell Lama portfolio has faced challenges since its inception and that Governor Cuomo's initiative seeks to preserve and recapitalize this important affordable housing resource. She stated that the Agency will be undertaking this initiative in a two stage process. She stated that in the first stage HFA will issue approximately \$46 million in taxable bonds to fund the payment to UDC and to pay related costs of issuance. Ms. Zucker stated that this payment to UDC will facilitate the purchase and transfer of the loan portfolio which consists of a range of first mortgages, second mortgages and IRP contracts on 44 properties located throughout the State of New York. She described the IRP contracts as a critical component of the financing plan. She stated that the IRP is an interest reduction payment contract under Section 236 of the HUD regulations, and provides for an interest rate subsidy between the rate on the mortgage and 1%. She noted that it is important to the Agency because it provides a guaranteed flow of income into the Agency directly from the federal government, and said that it is this steady stream of income that the Agency intends to leverage with its bond issue. She stated that the bonds are intended to mature over a five year period and be secured by the pledge of these IRP contracts. Ms. Zucker stated that the contracts will provide for over 1.3 times the coverage on the bond issue over its five year term. She stated that the Agency's plan is to take the excess income from the IRP contracts plus the income that flows off from the first mortgages and the second mortgages, to the extent that they are paying, and reinvest them into the property recapitalization. She stated that the 44 project portfolio contains over 10,400 units, and that the Agency intends to recapitalize 35 of these projects. She stated that according to the Agency's analysis, these projects need the most work and they consist of about 8,600 units. She stated that the Agency expects to accomplish this over the five year term of the bond issue.

Ms. Zucker stated that historically the Agency has financed approximately 25 to 30 projects a year and she expects that these projects will become a portion of the work that the agency does without becoming a huge increase in what is done annually. She said that typically, the Agency has been recapitalizing three to four of these projects in recent years as part of its regular book of business. Ms. Zucker stated that the Agency has been assured that the necessary staff will be in place to manage the workflow. She said that the term sheet letter agreement set forth the business terms between the two agencies and that there was a draft included in the board materials. Ms. Zucker stated that there is one open issue which she expects will be resolved over the next several days, and if that issue is not resolved staff will bring this item back to the board for its approval in May. She stated that the other item being presented for approval is the Greystone servicing contract. She stated that historically HFA services its own loan portfolio, but the expectation is that 9 projects which are not intended to be refinanced will be migrated to HFA as soon as feasible to service the loans and the 35 loans will migrate to HFA as project recapitalizations are undertaken. Ms. Zucker stated that the effort to get this portfolio to

HFA has included a wide range of people from HFA and HCR. Ms. Zucker complimented everyone's effort to get the Agency here and they include Michael Skrebutenas, Sharon Devine, Richmond McCurnin, Al Walcott, Mark Flescher, Gloria Boyd, Gail Bressler, Roger Harry, Stuart Zalka, Barbara Roslyn and Alejandro Valella. She stated that the Agency is really excited about this initiative because it represents the single largest component and the majority of the Governor's \$1 billion housing plan. Ms. Zucker said that it is both a challenge and an opportunity for HFA to do what it does best, and that is to save and preserve affordable housing.

Chairman Mulrow stated that as Chairman, he knows that this has been an objective of HFA for some time and the Governor's office has seen the merit in moving this housing initiative to HFA where he believes it belongs. He stated that it was more work and more of a burden on the Agency but HFA will get more resources to help the Agency with this task, and from his perspective the Agency can make a big difference in affordable housing which is critical in New York State. He thanked Ms. Zucker for her presentation and asked if any members had questions.

HFA Vice Chairman Weiss stated he would like to echo the Chairman's thoughts about staff and the extraordinary amount of work and effort performed by staff and Ms. Zucker and he thank them for doing a great job. He stated that he had a number of questions and asked for clarification as to the amount of the bond issue. He noted that the resolution before the board contemplated an amount not to exceed \$46 million, but the accompanying materials referenced \$46.24 million. Ms. Zucker responded that the amount is subject to change, as the closing approaches. HFA Vice Chairman Weiss stated that in the resolution there are places where it refers to the Agency acquiring the Mitchell Lama projects and he wanted to clarify that the Agency is acquiring only the debt on portfolio. Ms. Zucker confirmed that HFA is only acquiring the debt. HFA Vice Chairman Weiss asked Ms. Zucker to explain the calculation of the purchase price. Ms. Zucker responded that it was calculated after negotiations between the NYS Division of the Budget, HFA and UDC. HFA Vice Chairman Weiss asked if the amount of the IRP which is being used to service the bonds will be sufficient to pay the debt service on the bonds. Ms. Zucker responded that the IRP payments will be more than enough. HFA Vice Chairman Weiss asked if when each project is refinanced the \$46 million will be decreased. Ms. Zucker stated that any prepayment of the mortgage debt will be put back into the bond resolution. She stated that the amount may be used for renovations on the next project in line or to accelerate the debt service on the bonds and the Agency has the ability to pre-pay the bonds early. HFA Vice Chairman Weiss stated that the Agency has, in the past, participated on financings to take individual projects out of this Mitchell Lama portfolio, and that one of the components in the negotiations with ESDC has been to figure out how much to pay them for the amount of the IRP that they were losing. Ms. Zucker stated that it has been a challenge in the past for everyone involved in the previous Mitchell Lama refinancing, but the hope is that the process will move along faster now because this portfolio has been transferred to the housing agency. HFA Vice Chairman Weiss stated that it would be helpful to the board to get an explanation of how the Agency did with regard to their negotiations on obtaining the entire portfolio, as opposed to how it had been previously done at ESDC where each developer negotiated each transaction one at a time. Ms. Zucker responded that the Agency thinks that it obtained a fair price for this portfolio. HFA Vice Chairman Weiss stated that in the resolution there were a number of sections about default and the risk of default. He asked if Ms. Zucker

could articulate what it is that the Agency is taking on in terms of risk by assuming approximately \$46 million worth of debt. Ms. Zucker responded that based on the Agency's assumptions, and assuming the current market conditions, the Agency's coverage will be over 1.3 times the debt service on the bonds. Ms. Zucker stated that the risk will not in the first phase of issuing the bonds and acquiring the portfolio, but rather things that could happen over time once the portfolio is in the Agency's hands, that are hard to predict at this point. Ms. Zucker stated that the Agency has made certain assumptions on what the interest rates will be over the next five years when each of the projects is refinanced, and there could be another economic downfall in the country which could make the interest rates significantly higher than expected. She stated that the Agency performed a number of sensitivity analysis and worked very closely with the Division of the Budget looking at the different underlying assumptions of what will happen in the second phase. She stated that the Agency based the second phase analysis on the Agency's past experience to date in terms of renovation costs of the projects, looking at renovation costs of upstate rural, suburban and urban transactions and tested those costs and added to them to make sure that the Agency was being conservative in the renovation costs numbers. She stated that the Agency assumed that it would be participating in HUD's Rental Assistance Demonstration program, and the Agency requested that all of the borrowers send in a letter to request to participate in the program on a going forward basis. She noted that participation in RAD will give the Agency the ability to project-base a higher level of Section 8 units in each of the projects, giving the Agency the ability to maximize the first mortgage debt. She stated that to the extent that the Agency can maximize the Section 8 income into the project that would be a guaranteed income stream, which maximizes the first mortgage component of the capital structure. She stated that if the RAD program is no longer available then there may be a need for a higher subsidy level in the projects. She stated that another risk is that there have been discussions in the past about doing away with the tax credits program and tax exempt bonds and if this would happen it would affect the interest rates assumptions. Ms. Zucker stated that there are a number of extraordinary catastrophic events that can affect the Agency's ability to implement this program and that she cannot predict what the future would be under some of those more catastrophic risks.

Mr. Valella stated that there is a risk in the first phase being approved at this meeting, which is unlikely but will be disclosed in the Offering Statement, and relates to the IRP payments. Ms. Zucker responded that there are certain events that could disrupt the income from the IRP contracts but HUD has provided assurances to UDC in the past that these events do not include the foreclosure of any of the properties and the Agency has requested similar assurances for the Agency's issuance. HFA Vice Chairman Weiss asked if the Agency was assuming that the threat of foreclosure will be how the Agency will get the owners to negotiate with the Agency. Ms. Zucker stated that the Agency is exploring all of the possible tools and this would be one of them. HFA Vice Chairman Weiss stated that in almost all of these cases in the portfolio the partners' capital accounts are negative and getting the owners to negotiate is a major component of the second phase. HFA Vice Chairman Weiss stated that he had a number of questions and comments regarding the second phase, but stated that perhaps those questions are premature. HFA Vice Chairman Weiss asked that before presenting these projects to the Board, in the future, in connection with the recapitalizations, it would be helpful if staff would provide the Board with an overall plan for the refinance, which should include the staffing plan and the Agency's selection process so that the Board understands how it is approaching the refinance

phase. HFA Vice Chairman Weiss stated that he is particularly concerned in the timing because there are expiring IRPs and when they expire the ability to leverage those federal funds goes away. Ms. Zucker responded that the Agency would triage the portfolio by working backwards. Vice Chairman Weiss clarified that the Agency will fund the projects based upon the need and the expired IRP. Ms. Zucker stated that this is correct. HFA Vice Chairman Weiss stated that it would help the Board going forward to know what the pipeline of projects to refinance will look like. HFA Vice Chairman Weiss stated that he felt that there are resources and staff at the City level that the Agency should explore since 1/3 of this portfolio is located in the City and his concern would be that there will not be enough resources to do all the upstate projects. He said that one way of doing that is to use the city's resources to help the Agency offload some of the Agency's obligations. Ms. Zucker stated that the Agency would take that under advisement, but wanted to inform the Board that the assumptions on the revenue flow from all of the projects will help to reposition all of the projects. Ms. Zucker stated that HFA Vice Chairman Weiss's concerns are real regarding the upstate projects, because they tend to be the more challenged assets. She said that they have lower income levels and the markets are not as strong and the assumption of all the revenues and all the payments including the New York City properties is something the Agency needs to count on to take care of the upstate projects. She stated that the Agency is open to considering all local municipal partners as the Agency moves forward. HFA Vice Chairman Weiss acknowledged Ms. Zucker's effort in the process.

Commissioner Mattox asked about liability, now that the Agency is involved in this portfolio, given the maintenance and the historical concerns regarding the quality of the construction of this portfolio. Commissioner Mattox asked about the risks that the Agency will face if the conditions in the properties deteriorate, if the owners do not stay on top of scheduled maintenance, or if the costs exceed the Agency's expectations. Mr. Richmond McCurnin, from DHCR, was asked by Ms. Zucker to respond to these questions. Mr. McCurnin stated that DHCR has overseen the entire portfolio almost since its inception. Mr. McCurnin stated that the portfolio has been a challenge to deal with because of the way it was designed and constructed and in its inability to accumulate reserves over a period of time. He stated that going forward DHCR hopes to get an asset that is fully rehabilitated and can then treat these projects like the Mitchell Lama are typically treated, wherein it is a matter of indentifying problems and having resources to address them as opposed to chasing problems. Ms. Zucker stated that on an interim basis there are emergency funds set aside through the end of the year through UDC to do the emergency repairs. Ms. Zucker stated that the Agency is taking the projects in their current condition, but that Mr. McCurnin is referring to the second phase of the financing when the Agency will recapitalize individual projects. Mr. McCurnin stated that there are three projects that are in the Coney Island area and they were directly affected by Super Storm Sandy. He stated these projects will have some Empire State Relief funds dedicated to them of approximately \$3.5 million. He stated that the Sandy damage had been estimated at approximately \$8 million but that was based on a wish list of doing everything from start to finish. He stated that the Agency will have some monies to address the Sandy damage and then when the refinancings are done there will be additional resources. He stated the expectation is to get these projects to a point where they are fully functional and stable as opposed to what has been the case for the past 35 years which is less than acceptable design, construction and electric heat in all these buildings. He said that the goal is to start off fresh with a fully renovated project and build up reserves so that down the road when problems occur the funds that are available

will address any issues. He stated that the operating costs in some of the buildings are out of control.

SONYMA Director Don Lebowitz asked if there would be SONYMA insurance on these projects. Ms. Zucker stated there may be SONYMA insurance on the smaller projects but primarily it will be Freddie Mac or Fannie Mae. SONYMA Director Lebowitz also asked about the excess coverage. Ms. Zucker stated that the monies will be locked into the bond resolution.

Chairman Mulrow restated that this is an important task for the Agency to take on and an opportunity to make a difference with the deteriorating housing stock throughout New York State. He stated he is glad the Agency will have this portfolio and that it will take a lot of work, but he feels the challenges that were outlined are challenges the Agency has always faced looking into the future and which are hard to predict. He stated that he took comfort in the excess coverage, which is high for this type of transaction. Chairman Mulrow stated that exploring what the Agency could do with the Agency's municipal partners is something worthwhile but he feels this is an important responsibility for the Agency and that the Agency is up for the challenge. Commissioner Towns stated that this has been talked about for many years and he wanted to thank Ms. Zucker and her staff for their tremendous work in accomplishing this transfer. Commissioner Towns further added that he wanted to particularly acknowledge and thank the Chairman for his role and hard work in assisting by reaching out to the senior leadership in the Administration.

Commissioner Darryl Towns moved to adopt the resolution; Elaine McCann seconded the motion and the following resolution, as revised to include HFA Vice Chairman Mr. Weiss's comments, was adopted unanimously:

A RESOLUTION OF THE NEW YORK STATE HOUSING FINANCE AGENCY PROGRAM AND FINANCE COMMITTEE RECOMMENDING THE AUTHORIZATION AND APPROVAL OF THE ISSUANCE OF BONDS TO ACQUIRE THE UDC MITCHELL LAMA LOAN PORTFOLIO AND THE ENTERING INTO OF CERTAIN AGREEMENTS IN CONNECTION THEREWITH

There being no unfinished business, Commissioner Towns moved to adjourn the meeting; Ms. McCann seconded the motion, and the meeting was adjourned at 9:30 AM.



Alejandro J. Valella, Acting Secretary