

**MINUTES OF THE
REGULAR MEETING OF THE
MORTGAGE INSURANCE COMMITTEE OF THE
STATE OF NEW YORK MORTGAGE AGENCY
HELD ON SEPTEMBER 13, 2012 AT 8:07 A.M.
AT ITS OFFICES AT 641 LEXINGTON AVENUE
NEW YORK, NEW YORK 10022**

DIRECTORS AND DESIGNEES

PRESENT:

William J. Mulrow	Chairman
Naomi Bayer	Director
Don Lebowitz	Director
Marge Rogatz	Director
Darryl C. Towns	Director

William J. Mulrow, Chairman of the State of New York Mortgage Agency (“SONYMA”), opened and chaired the Directors meeting of the Mortgage Insurance Committee of SONYMA. M. Lauren McGill, Vice President and Counsel to the Mortgage Insurance Fund (“MIF”), acted as Secretary and asked for a motion and a second to call to order the meeting. Ms. Bayer moved to call the meeting to order; Chairman Mulrow seconded the motion. Ms. McGill stated that as items are presented before the Committee throughout the meeting, this motion and second will be used unless specific items call for a different vote or unless any Committee director wishes to record his or her vote differently.

Renee Nowicki, Division of the Budget, representing Robert Megna, SONYMA Director (via video conference); Thomas H. Mattox, New York State Department of Taxation and Finance; Alejandro J. Valella, Vice President and Deputy Counsel of the Agencies, and Steven J. Weiss, New York State Housing Finance Agency (“HFA”) Member, attended the meeting as guests.

* **Item number 1 on the agenda was the presentation of the minutes of the meeting of the Mortgage Insurance Committee (“MIC”) held on July 12, 2012.** There being no objections or corrections suggested by the Directors, the minutes were deemed approved.

* **Item number 2 on the agenda was a resolution recommending the approval of 100% mortgage insurance on an \$11,450,000 HFA permanent first mortgage loan for Mariner Apartments, 186 Efner Street, Buffalo, Erie County. Certificate No. 1-110.** Mr. Michael A. Friedman, Senior Vice President and Director of the MIF, highlighted certain information contained in the materials provided to the Directors in connection with this item, which are incorporated herein by reference. He stated that this highly-subsidized project comprises the acquisition and rehabilitation of a 292-unit housing complex, of which 290 units have an existing Section 8 project-based HUD Housing Assistance Payment (HAP) contract, renewable as a condition precedent for receiving mortgage insurance. He stated that the developer, Liberty Affordable Housing, Inc., is a well-known and well-regarded upstate operator of affordable housing. He stated that this transaction and the following item on the agenda were the tenth and eleventh loans that the MIF will insure on projects developed by Liberty Affordable Housing, Inc., which brings the MIF's total exposure to \$61 million on projects developed by Liberty Affordable Housing, Inc. He stated that the insured loan amount was \$39,000 per unit, which equaled 29% of the project's total development cost. He stated that the project would break even with a proforma vacancy rate of 11%.

Ms. Rogatz asked why the project's HAP contract was 15 years for this project, and 20 years for another project. Mr. Arthur C. Loomis, President of CRM Housing Development, Inc., representing Liberty Affordable Housing, Inc., responded that the U.S. Department of Housing and Urban Development (HUD) had been asked for a 20-year contract. He stated that HUD's response letter extended the contract for 15 years, that the HAP assignment was submitted, and that he thinks a 20-year contract will be granted.

Ms. Bayer moved to adopt the resolution; Chairman Mulrow seconded the motion, and the resolution was unanimously adopted.

* **Item number 3 on the agenda was a resolution recommending the approval of 100% mortgage insurance on a \$9,000,000 HFA permanent first mortgage loan for Colonial Square Apartments I & II; 200 Virginia Lane and 100 Charles Lane, Amsterdam, Montgomery County. Certificate No. 6-256.** Mr. Friedman highlighted certain information contained in the materials provided to the Directors in connection with this item, which are incorporated herein by reference. He stated that this heavily-subsidized project comprises the acquisition and moderate rehabilitation of two adjacent projects with an aggregate of 200 low-income housing units in 18 buildings, and is the second of two projects on the agenda with Liberty Affordable Housing, Inc. He stated that, in addition to the insured first mortgage and \$1.6 million second mortgage, there would be \$4.1 million from federal low-income housing tax credits. He stated that the insured loan amount was \$45,000 per unit, which equaled 54% of the project's total development cost of \$83,000 per unit. He stated that the project would break even with a proforma vacancy rate of 10% and flat rents, or an 8% increase in maintenance and operating expenses.

Ms. Bayer moved to adopt the resolution; Chairman Mulrow seconded the motion, and the resolution was unanimously adopted.

* **Item number 4 on the agenda was a resolution approving 100% mortgage insurance on a \$5,320,000 HFA permanent first mortgage loan for Bridleside Apartments, 256-258 June Road, North Salem, Westchester County. Certificate No. 8-280.** Mr. Friedman highlighted certain information contained in the materials provided to the Directors in connection with this item, which are incorporated herein by reference. He stated that this heavily-subsidized project comprises the construction of 65 low-income housing units, and conforms to the August 2009 Stipulation, Order of Settlement and Dismissal between Westchester County and the U.S. Department of Housing and Urban Development (HUD), which requires the County to develop at least 750 new affordable housing units within seven years. He stated that project subsidies would include low-income housing tax credits of \$9.6 million in federal tax credits and \$4.5 million in state tax credits. He stated that the experienced affordable-housing developers were Wilder Balter Partners, Inc. and the Housing Action Council, Inc., and that this would be Wilder Balter's second HFA loan insured by the MIF. He stated that the insured loan amount was \$82,000 per unit, which equaled 19% of the project's total development cost of \$433,494 per unit. He stated that the project has a higher than usual loan-to-value ratio of 85% which is balanced by the strong demand for affordable housing in Westchester County and excellent track record of Wilder Balter. He added that the appraiser used a cap rate of 6.8% which is high for Westchester County.

Ms. Bayer moved to adopt the resolution; Chairman Mulrow seconded the motion, and the resolution was unanimously adopted.

* **Item number 5 on the agenda was a resolution approving 100% mortgage insurance on a \$2,700,000 HFA permanent first mortgage loan for Creston Avenue Residence, 2382-2388 Creston Avenue, Bronx County. Certificate No. 10-1804.** Mr. Friedman highlighted certain information contained in the materials provided to the Directors in connection with this item, which are incorporated herein by reference. He stated that this mixed-occupancy project comprises the construction of 66 low-income housing units of which 21 units will be funded by the New York State Office of Mental Health (OMH) for tenants with special needs, 24 units will be reserved for disabled, formerly homeless veterans who will receive Section 8 vouchers from the Veteran's Administration, and 21 units will be standard low-income housing tax-credit units. He stated that this heavily-subsidized project would receive \$8.5 million in federal low-income housing tax credits and \$2.9 million in state low-income housing tax credits. He stated that the insured loan amount was \$40,900 per unit, which equaled 12% of the project's total development cost of \$346,360 per unit. He stated that the project would break even with a 10% vacancy loss.

Ms. Bayer moved to adopt the resolution; Chairman Mulrow seconded the motion, and the resolution was unanimously adopted.

* **Item number 6 on the agenda was a resolution recommending the approval of 100% mortgage insurance on a \$10,000,000 CPC permanent first mortgage loan for**

Merchants Commons, 214-220 South Warren Street, Syracuse, Onondaga County. Certificate No. 3-186. Mr. Friedman highlighted certain information contained in the materials provided to the Directors in connection with this item, which are incorporated herein by reference. He stated that this project comprises the acquisition, rehabilitation and historic re-adaptation of two attached commercial buildings in downtown Syracuse which SONYMA, The Community Preservation Corporation (CPC) and the City of Syracuse have worked on for several years. He stated that, although the developer, Joseph Hucko, was new to SONYMA, he was experienced and currently manages more than 300,000 square feet of mostly commercial space around the project area. Mr. Friedman stated that the insured loan amount was \$151,515 per unit, which equaled 76% of the project's total development cost of \$200,045 per unit. He stated that the developer was investing \$1.5 million in the project, and there would be no developer fee. He stated that because the commercial space is expected to produce 32% of the project's proforma income, the MIF underwrote the project with a minimum income-to-expense ratio of 1.10:1 rather than 1.05:1. He stated that the project would break even with an 80% vacancy rate in the commercial space.

Noting that the project's rents would be affordable to households with target incomes between 89% and 98% of the AMI for Onondaga County, Mr. Lebowitz asked what the market rent was in that area. Mr. Friedman responded that those rents were market rents for the Armory Square area. Mr. Lebowitz asked what MIF's participation was in the project. Mr. Friedman stated that in light of the subsidies from the state and local municipality, the MIF participation is also supporting downtown redevelopment including historic re-adaptation of vacant commercial buildings into residential buildings. Mr. Lebowitz asked if, in light of the market-rate rents, market surveys had been done. Mr. Friedman responded that surveys were done, that the MIF insures a number of historic re-adaptation projects in the Armory Square-Hanover Square-Franklin Square neighborhoods which are fully-occupied, and that he has no concerns about vacancies in this project.

Ms. Bayer moved to adopt the resolution; Chairman Mulrow seconded the motion, and the resolution was unanimously adopted.

*** Item number 7 on the agenda was a resolution approving 100% mortgage insurance on a \$4,800,000 CPC permanent first mortgage loan for Creekside Springs, Franklindale and Creek Road, Wappingers Falls, Dutchess County. Certificate No. 5-266.** Mr. Friedman highlighted certain information contained in the materials provided to the Directors in connection with this item, which are incorporated herein by reference. He stated that this project comprises the construction of 44 affordable housing units. He stated that, at the request of SONYMA, the developer would execute a Regulatory Agreement with the Village of Wappingers Falls which will require that nine units, or 20%, be income-restricted to tenants earning up to 80% of the Dutchess County AMI, and the remaining units be affordable to tenants earning up to 100% of the AMI. He stated that the insured loan amount was approximately \$109,000 per unit, which equaled 70% of the total development cost of \$156,000 per unit, and that the project would break even with an 11% proforma vacancy loss. Mr. Friedman stated that the borrower would invest \$2 million in equity, equal to 30% of the project's development cost.

Noting the project's income restriction of 80% AMI, Mr. Lebowitz asked what the market rent was and what the rental demand was in the project area. Mr. Friedman stated that market rate was 100% AMI, and that the MIF would insure the permanent mortgage upon project completion and full rent-up. He stated that in Dutchess County, as in Westchester County, there was strong demand for affordable rental housing and that he did not anticipate any vacancy problem.

Ms. Bayer moved to adopt the resolution; Chairman Mulrow seconded the motion, and the resolution was unanimously adopted.

*** Item number 8 on the agenda was a resolution approving 100% mortgage insurance on a \$2,638,716 CPC permanent first mortgage loan for 601 Dahill Road, Brooklyn, Kings County. Certificate No. 10-1805.** Mr. Friedman highlighted certain information contained in the materials provided to the Directors in connection with this item, which are incorporated herein by reference. He stated that this project involves the construction of supportive housing units for 13 clients of the New York State Office for People With Developmental Disabilities (OPWDD). He stated that the project owner, Women's League Community Residences, Inc. (WLCR) is one of the highly-regarded agencies selected by the OPWDD for an initiative that recognizes providers of better-than the minimal regulatory compliance. He stated that the loan amount was \$203,000 per bedroom-unit, which equaled 85% of the project's total development cost of \$237 per bedroom-unit. He stated that debt service would be paid directly to the insured mortgagee by OPWDD.

Mr. Lebowitz requested explanation of the high per-bedroom cost. Mr. Friedman stated that total development cost per bedroom included construction of a new four-story elevated building with communal kitchen and dining rooms to accommodate the special-needs residents. Mr. Lebowitz expressed concern that costs involved in supportive housing were high and suggested that project costs be scrutinized and guidelines developed. Ms. Rogatz stated that she shared those concerns but noted that the high prices reflected support necessary in order to maintain special needs clients within a very high-level supportive-housing environment.

Mr. Lebowitz asked why the mortgage was for a short term of 15 years. Mr. Friedman responded that it was ultimately less costly to OPWDD to have a fully-amortizing 15-year mortgage, which would lower the total interest expense.

Mr. Lebowitz asked, and Mr. Friedman confirmed that the project was a state-supported project for which the MIF is essentially insuring that the State will fund, a type of project discussed at previous meetings. Mr. Friedman stated that he reviewed the MIF portfolio, and that the MIF has approximately \$2.25 billion of policies in force, of which \$150 million are projects where debt service is paid by OMH or OPWDD, which is about 6.7% of the MIF policies in force. Mr. Friedman stated that the MIF has approximately \$850 million of commitments outstanding, approximately \$60 million of which are OPWDD-OMH projects, or 7.1% of the commitments. He stated that three OPWDD-OMH projects were on the agenda for an additional \$14 million, which would increase the outstanding commitments on state-supported projects to \$74 million. He stated that supportive housing projects would increase to

7.7%, which is not imprudent, adding that he would be comfortable with a level between 10% and 15%. Ms. Bayer requested that the Directors be provided with a memo which outlines the current level and anticipated growth of supportive-housing projects insured by the MIF.

Mr. Lebowitz stated that he has accepted the explanation that an OMH or OPWDD deal was a reasonable risk because the State cannot walk away from its commitment to supportive housing; but questioned whether the State has a commitment to any one particular project. Mr. Friedman stated that the State was contractually obligated to pay debt service for 15 years on a mortgage, even if it pulls the residents out of a care facility and it becomes an empty building. He added that the MIF was insuring the State's obligation to fund debt service on the mortgage, subject to annual appropriation, adding that there was some appropriation risk rather than contractual risk.

Acknowledging the points made by Mr. Lebowitz, Chairman Mulrow stated that the MIF has an important public purpose, and that its program is critical to what happens in the State and to those deals that otherwise would not get done. Mr. Lebowitz stated that if the MIF had a target of 15% supportive housing deals, he would rather see more units built which sensitivity to cost, adding that if a cap was reached at some point, the MIF would not be able to do anything for anyone.

Ms. Bayer moved to adopt the resolution; Chairman Mulrow seconded the motion, and the resolution was unanimously adopted.

*** Item number 9 on the agenda was a resolution recommending the approval of 100% mortgage insurance on a \$8,750,000 Bank of America, N.A. permanent first mortgage loan for 462-478 East 144th Street, Bronx County. Certificate No. 10-1807.** Mr. Friedman highlighted certain information contained in the materials provided to the Directors in connection with this item, which are incorporated herein by reference. He stated that this was another supportive-housing project which will provide 60 housing units, of which 42 will house clients of OMH and the remaining 18 will be traditional low-income housing tax credit units. He stated that project subsidies included \$10.2 million in federal low-income housing tax credits. He stated that the developer, a not-for-profit owner-operator of supportive housing, was new to the MIF, but is well-regarded by OMH. He stated that the tax credit investor is The Richman Group Capital Corporation, which is active in buying tax credits in supportive-housing projects, and which the MIF has seen on a number of deals with HFA. He stated that the insured loan amount was \$146,000 per unit, which equaled 46% of the project's total development cost of \$317,000 per unit. Mr. Friedman stated that, as with the prior project, the MIF waived both the appraisal requirement and the loan-to-value requirement.

Ms. Bayer moved to adopt the resolution; Chairman Mulrow seconded the motion, and the resolution was unanimously adopted.

* **Item number 10 on the agenda was a resolution recommending the approval of \$55 million mortgage insurance on a \$621,500,000 Wells Fargo Bank, N.A. permanent first mortgage loan for Co-op City, Bronx, Bronx County. Certificate No. 10-1801.** Mr. Friedman highlighted certain information contained in the materials provided to the Directors in connection with this item, which are incorporated herein by reference. He stated that this project comprises the refinancing of existing New York Community Bank (NYCB) debt on 15,372 State Mitchell- Lama co-op units with a Wells Fargo, HUD-insured, \$621.5 million, 35-year fixed-rate first loan at 2.5% interest. He stated that the rate on existing NYCB loan was scheduled to increase every three years from a current rate of 5.7% to 6.7% in year 11. Mr. Friedman stated that SONYMA will insure \$55 million of the loan; NYC Housing Development Corporation will assume \$15 million of risk. He stated that the units were highly-affordable with a three-bedroom unit, for example, affordable to a household with an income of 57% of the AMI for Bronx County. He stated that a Wells Fargo-ordered Physical Needs Assessment Report indicated that essential rehabilitation work was complete, and that \$25 million in additional repairs will be done over the next two years which will be covered by a reserve at closing. He stated that the MIF's risk exposure was \$3,600 of insured-loan amount per unit, as opposed to the average \$42,000 per unit, which represented an efficient use of the MIF's insurance capability. He stated that the total debt service was only \$2,000 per unit per annum. Mr. Friedman stated that, historically, the Co-op City project defaulted on its original HFA mortgage loan in the late 1990s-early 2000; the NYCB loan refinanced the principal.

Ms. Bayer asked why this project had lower debt service coverage than other projects. Mr. Friedman stated that it was standard policy of the MIF to underwrite to 1.0 coverage for co-ops so as to not cause the maintenance charges to rise. He added that vacancy rate was lower in this project based on its historical vacancy and collection loss. Mr. Lebowitz asked what the vacancy and collection losses were over the past three years. Mr. Friedman responded that 2.5% was representative of what they were, and confirmed that no margin would be built-in.

Mr. Lebowitz asked what the defaulted amount was on the original HFA mortgage loan. Chairman Mulrow invited the following representatives to the table: Richmond McCurrin, Assistant Commissioner of DHCR, and Catherine I. Pharis, Managing Director, and Alan Weiner, Managing Director, both from Wells Fargo. Mr. McCurrin stated that he did not recall the amount of the default, but recalled the late-1970s rent strike, followed by a series of construction defects in the 1980s, and several work-out settlement agreements which required Co-op City to repay missed mortgage amounts. He stated that in recent years Co-op City has had a more stable board and the transition from self-management to private management had benefitted Co-op City and its owner, Riverbay Corporation, and resulted in better working relationships with all involved entities. Ms. Pharis stated that over \$400 million in renovations had been done to raise the standard of the city-within-a-city property.

Ms. Bayer asked for comments about the large water and sewer arrearage. Mr. McCurrin stated that the recent financial crisis affected the owner's ability to obtain loans from credit markets to pay equity to the outgoing shareholders, which resulted in increased vacancies and affected cash-flow. Ms. Pharis stated that the approximate \$12 million arrearage was recently refinanced with NYCB and repaid, and the owner has since been current.

Ms. Bayer asked why HUD wanted New York City and New York State to be in a first loss position. Mr. Weiner responded that HUD required top-loss coverage because it was not willing to do a \$621 million loan, its largest ever, at a one-to-one coverage. He stated that the first loss risk allowed the State to be involved without providing capital and it was only after the State's offer that HUD proceeded to underwrite the loan.

Mr. Lebowitz asked if it was standard for the MIF to become involved in a project where an owner had defaulted on a loan held by a sister agency. Mr. Friedman reiterated comments made by Mr. McCurrin that there was now different management, a different board and repairs have been completed. Mr. Lebowitz asked Mr. McCurrin to address the 2007 report of the Inspector General which criticized DHCR for its lack of oversight and allowing the project to get into substantial deficits. Mr. McCurrin stated that the owner, Riverbay Corporation, often requested waivers of the Mitchell-Lama DHCR regulations in order to perform urgent construction work and, due to the property's size, if DHCR staff deemed it was in the best interest of the owner-housing company to waive a procedure, then DHCR complied with the request, which sometimes was in conflict with regulations. Mr. Weiner added that if anyone was concerned about the continued viability of Co-op City, the interest savings in the next 14 years on the HUD-insured loan versus the current NYCB loan will be \$145 million to the co-operators.

Chairman Mulrow called for a motion to adjourn the meeting for Executive Session. Mr. Lebowitz moved to adjourn, Ms. Rogatz seconded the motion, and the Mortgage Insurance Committee entered into Executive Session at 9:10 a.m. pursuant to Section 105(f) of New York State Open Meetings Law, to discuss the credit history of a corporation. Chairman Mulrow called for a motion to reconvene from the Executive Session which ended at 9:27 a.m. Ms. Rogatz moved to reconvene, Mr. Lebowitz seconded the motion, and the public Committee meeting reconvened at 9:28 a.m. Mr. Valella stated that no votes were taken in Executive Session.

Chairman Mulrow moved to adopt the resolution; Commissioner Towns seconded the motion. Mr. Lebowitz and Ms. Bayer voted against the resolution, which was adopted with three votes in favor and two opposed.

* **Item 11 on the agenda was for Information only.**

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


M. Lauren McGill
Secretary