

**MINUTES OF THE
REGULAR MEETING OF THE
MORTGAGE INSURANCE COMMITTEE OF THE
STATE OF NEW YORK MORTGAGE AGENCY
HELD ON JULY 14, 2011 AT 1:08 P.M.
AT ITS OFFICES AT 641 LEXINGTON AVENUE
NEW YORK, NEW YORK 10022**

DIRECTORS AND DESIGNEES

PRESENT:

Don Lebowitz	Director
David J. Sweet	Director
Darryl C. Towns	Director

ABSENT:

Naomi Bayer	Director
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Karen A. Phillips, Vice Chairperson of State of New York Mortgage Agency (“SONYMA”), attended and chaired the meeting; M. Lauren McGill, Vice President and Counsel to the Mortgage Insurance Fund (“MIF”), acted as Secretary. Marge Rogatz, SONYMA Director, attended the meeting as a guest.

* **Item number 1 on the agenda was the presentation of the minutes of the meeting of the Mortgage Insurance Committee (“MIC”) held on June 14, 2011.** 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 a \$16,490,000 HFA permanent first mortgage loan for the construction of Heritage House, Brook Street and Winthrop Avenue, New Rochelle, Westchester County, containing 131 low-income units. Certificate #8-271.** Mr. Friedman highlighted certain information contained in the materials provided to the Directors in connection with this item, which materials are incorporated herein by reference. He stated that this highly-subsidized project comprises 100% insurance on a 30-year New York State Housing Finance Agency (“HFA”) first mortgage for the construction of 131 low-income units. He stated that this project is important to the City of New Rochelle’s downtown development, and will replace the deteriorated, and to be demolished, federal

public housing development known as Hartley Houses. He stated that the development entity will be controlled by the well-regarded Macquesten Development LLC, a repeat HFA borrower, adding that this is HFA's third project with Macquesten. Mr. Friedman stated that the loan amount for this project is \$125,888 per unit which equals 45% of the project's total development cost, and that the project breaks even with a 10% vacancy rate.

In response to questions from Mr. Lebowitz, Mr. Friedman stated that, because the existing project site lacked thru-streets, which cuts off Hartley Houses from the downtown and was an impediment to the City of New Rochelle's plans for development, the City plans to demolish Hartley Houses and restore the street grid as part of its downtown development plan.

In response to questions from Vice Chairperson Phillips, Mr. Friedman stated that existing tenants will remain in Hartley Houses until this project is completed and will then be relocated to the project. He added that this project is the first phase of the residential development plan which will replace Hartley Houses.

Mr. Sweet recused himself from voting on this item.

Mr. Lebowitz moved to adopt the resolution; Mr. Towns seconded the motion, and the resolution was adopted.

* **Item number 3 on the agenda was a resolution recommending the approval of 100% mortgage insurance on a \$7,100,000 HFA permanent first mortgage loan for the rehabilitation of North Country Rural Apartments located on scattered sites in Jefferson, St. Lawrence and Franklin Counties, containing 254 low-income units. Certificate #7-80.** Mr. Friedman highlighted certain information contained in the materials provided to the Directors in connection with this item, which materials are incorporated herein by reference. He stated that this highly-subsidized project comprises 100% insurance on a 30-year HFA first mortgage for the rehabilitation of 254 low-income units, and that the project's three sources of rental assistance include the U.S. Department of Agriculture, which will cover 70 units, the DHCR Rural Rental Assistance program, which will cover 162 units, and a project-based Section 8 HAP contract which will cover 22 units. He stated that the development entity will be controlled by the well-regarded Conifer Realty LLC ("Conifer"), a repeat HFA and SONYMA borrower, adding that this would be the Mortgage Insurance Fund's fourteenth exposure with Conifer.

In response to questions from Mr. Lebowitz, Mr. Friedman stated that because the MIF's exposure to Conifer was approaching \$100 million, it would be prudent to review the Conifer portfolio and the MIF risk with this one developer. He suggested that Conifer could be asked to make a presentation to the MIC in the near future. President Towns noted that Conifer is a well-regarded developer in upstate and western New York State.

In response to questions from Mr. Sweet, Mr. Friedman stated that the developer's \$9 million acquisition cost is consistent with the 2008 acquisition expense. Marian Zucker, President of Finance and Development, confirmed that the acquisition cost includes the assumption of the outstanding \$9.1 million USDA loan.

Mr. Lebowitz moved to adopt the resolution; Mr. Towns seconded the motion, and the resolution was adopted.

* **Item number 4 on the agenda was a resolution recommending the approval of 100% mortgage insurance on a \$17,791,400 Bank of America permanent first mortgage loan for the construction of 23-18 41st Avenue, Long Island City, Queens County, containing 109 middle-income HARP units. Certificate #10-1750.** Mr. Friedman highlighted certain information contained in the materials provided to the Directors in connection with this item, which materials are incorporated herein by reference. He stated that the project comprises 100% insurance on a 30-year Bank of America first mortgage which will be sold to the New York City Employee Retirement System ("NYCERS"). He stated that the 109 moderate-income unit project will be subject to a New York City HPD regulatory agreement. He further stated that this was the second project under the New York City Department of Housing, Preservation and Development ("HPD") Housing Asset Renewal Program ("HARP") which provides subsidy funds to enable the conversion of stalled or failed condominium projects into moderate-income rental projects. Mr. Friedman stated that in addition to the subsidy loans, the project will receive Section 421-a and Industrial and Commercial Incentive Program ("ICIP") real estate tax exemptions. He said that while the units are restricted to tenants with incomes at or below 130% of the New York City Area Median Income ("AMI"), the initial rents are affordable between 60% and 117% of the AMI. He stated that the MIF will insure the project only when it has achieved 90% occupancy for ninety days and, therefore, does not carry construction or lease-up risk. He stated that the loan amount is \$163,000 per unit which equals 62% of the project's total development cost, and that the project breaks even with a 12% pro-forma vacancy rate and collection loss.

In response to questions from Mr. Lebowitz regarding the commercial space and acquisition cost, Mr. Friedman stated that the MIF declined to insure the 15,000 square feet of commercial space, and suggested that part of the developer's \$3.3 million equity contribution offset any acquisition cost attributable to the commercial space. Mr. Lebowitz asked what assurances are in place should the project run into problems renting the commercial space. Sheldon Goldman, Vice President, stated that the developer will pay down the construction loan on the commercial space and will own it outright at conversion. He stated that even if the commercial space remained vacant, it would not adversely impact the financial viability of the project.

In response to questions from Mr. Sweet concerning operating expenses and the cost of capital improvements, Mr. Friedman stated that anticipated cash-flow from the residential project of \$150,000 per annum should provide adequate coverage for operating expense and capital costs.

In response to a question from Mr. Lebowitz, Mr. Friedman stated because of the HPD subsidy, the insurance premium is 50 basis points.

Mr. Lebowitz moved to adopt the resolution; Mr. Towns seconded the motion, and the resolution was unanimously adopted.

* **Item number 5 on the agenda was a resolution recommending the approval of 100% mortgage insurance on a \$8,450,000 CPC permanent first mortgage loan for Wood Creek Apartments, 23 Wood Creek Drive, Rome, Oneida County, containing 194 affordable units. Certificate #7-79.** Mr. Friedman highlighted certain information contained in the materials provided to the Directors in connection with this item, which materials are incorporated herein by reference. He stated that the project comprises 100% insurance on a Community Preservation Corporation ("CPC") 30-year first mortgage loan which will be sold to the New York State Common Retirement Fund ("CRF"). He stated that the project will be subject to a 30-year HFA Regulatory Agreement which will require that 20% of the units be set aside for tenants with incomes up to 80% of the AMI. Mr. Friedman stated that the projected loan amount is \$45,000 per unit which equals 55% of the project's total development cost, and that the project breaks even with a 13% pro-forma vacancy rate. Mr. Friedman said that the project was originally financed in 1988 by HFA. He said that in 2009, a remarketing of the HFA variable-rate bonds failed, and the bonds were purchased by Wachovia Bank, the liquidity provider. He stated that HFA thereafter redeemed the bonds held by Wachovia, which necessitated payment of a final claim by the SONYMA MIF to HFA. He stated that the original HFA mortgage will be modified and remain in place as a second mortgage.

Mr. Sweet asked why the MIF will not be holding the second mortgage. Mr. Friedman replied that in 2009, the MIF saw little value in the project and elected not to take the HFA mortgage by assignment and foreclose. He added that the project is in need of substantial rehabilitation, and will be acquired by a new, experienced developer who is a SONYMA/HFA/CPC repeat borrower. He noted that the HFA mortgage will stay in place as a cash flow mortgage.

Mr. Lebowitz moved to adopt the resolution; Mr. Towns seconded the motion, and the resolution was unanimously adopted.

* **Item number 6 on the agenda was a resolution approving 100% mortgage insurance on a \$472,000 increase in a CPC permanent mortgage loan from \$3,158,000 to \$3,630,000 to cover increased project costs for 735-765 and 816-822 Prospect Avenue, New Cassel, Town of North Hempstead, Nassau County, containing 50 low and very low-income units. Certificate #9-54.** Mr. Friedman highlighted certain information contained in the materials provided to the Directors in connection with this item, which materials are incorporated herein by reference. He stated that in 2006, development of the project was stalled after the principal of the general partner of the borrowing entity went to prison and was removed by the limited partner, First Sterling, which subsequently finished the project. Mr. Friedman stated that the requested \$472,000 is to cover cost overruns, mainly carrying costs, of the past five years. He added that the Common Retirement Fund has agreed to reduce the interest rate of the mortgage loan from 7.21% to 5.50%, which more than compensates for the increase in mortgage amount.

Mr. Lebowitz noted that the project was already built and asked what the consequences would be if the MIC declined to approve the requested increase in mortgage insurance. Mr. Friedman stated that if the MIF did not insure the increased mortgage loan, it would adversely affect the tax credit investor-limited partner which had stepped in, removed the general partner from the project and put in its own money to finish the project.

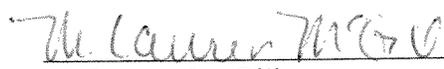
In response to questions from Mr. Sweet regarding the condominium structure, Mr. Friedman stated that review and approval of the condominium documents was a condition precedent to insurance effectiveness under the MIF's commitment to CPC. Mr. Lebowitz suggested that, going forward, it would be helpful to the MIC to review project materials on loan increases which show the current status of a project's financial structure, in addition to its history and future projections.

Mr. Lebowitz moved to adopt the resolution; Mr. Towns seconded the motion, and the resolution was unanimously adopted.

* **Item number 7 on the agenda was was for Information only.**

Vice Chairperson Phillips asked if there were any issues to report. Mr. Friedman stated that the May mortgage tax surcharge collections levels fell from \$6.8 million in April back down to \$5.5 million in May. Mr. Friedman stated that project defaults have stabilized, and a number of existing defaults have cured.

There being no unfinished business, Mr. Lebowitz moved to adjourn; Mr. Sweet seconded the motion; and the meeting was adjourned at 1:49 P.M.


M. Lauren McGill
Secretary