2014 Entry Form
(Complete one for each entry.)

Fill out the entry name ***exactly*** as you want it listed in the program.

Entry Name Funding Housing Programs and Using Wealth Created in a Parity Resolution

HFA NYC Housing Development Corporation ("HDC")

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Qualified Entries must be received by **Tuesday, July 1, 2014**.

For more information about Qualified Entries, click here to access the 2014 Entry Rules.

Use this header on the upper right corner of each page.

HFA ____________________

Entry Name ____________________

Communications	Homeownership	Rental Housing	Special Needs Housing
☐ Annual Report ☐ Promotional Materials and Newsletters ☐ Creative Media	☐ Empowering New Buyers ☐ Home Improvement and Rehabilitation ☐ Encouraging New Production	☐ Multifamily Management ☐ Preservation and Rehabilitation ☐ Encouraging New Production	☐ Combating Homelessness ☐ Housing for Persons with Special Needs
Legislative Advocacy	**Management Innovation**	**Special Achievement**	**Are you providing visual aids?**
☐ State Advocacy ☐ Federal Advocacy	■ Financial ☐ Human Resources ☐ Operations ☐ Technology	☐ Special Achievement	☐ YES ■ NO

Background

On May 5, 2014, New York City Mayor Bill de Blasio released *Housing New York: A Five-Borough, Ten-Year Plan* ("The Housing Plan") that is the roadmap for his ambitious goal to create and preserve 200,000 units of affordable housing over the next ten years. The expected need of public and private financing to achieve this ambitious goal is $41 billion, and includes a significant financial reliance on New York City Housing Corporation ("Corporation" or "HDC"). The Housing Plan calls for HDC to issue approximately $11 billion of bonds that will leverage the investment of over $3.5 billion in tax credit equity and contribute $1.14 billion in subsidy loans over the next ten years.

The Housing Plan calls for a large scale of affordable housing to be created and/or preserved that targets low, moderate, and middle income households. Because of its mission to "increase the supply of multi-family housing, stimulate economic growth and revitalize neighborhoods by financing the creation and preservation of affordable housing for low- , moderate- and middle-income New Yorkers," HDC is committed to meeting the Mayor's goal.

Because of its ability to create, lend and leverage its resources, HDC is well positioned to meet the Mayor's goal. In 1993, the Corporation established its Multi-Family Housing Bond Resolution ("Open Resolution"), which permits the issuance of an unlimited amount of parity debt bonds and is rated Aa2/AA by Moody's and S&P. It is HDC's largest single asset and most flexible financing vehicle. A parity resolution can be structured to handle a large volume of transactions and serve as an engine to continually leverage assets, while also being sustainable and profitable. As such, HDC believes that many of the Corporation's financial strategies outlined below are not only innovative but also replicable by HFAs of varying size and financial capacity.

HDC's Financial Strategies:

General Strength and Flexibility of Multi-Family Housing Revenue Bond Resolution: The Open Resolution generates surplus revenues that can be withdrawn from the Resolution upon meeting a cash flow test. The surplus in the Open Resolution is derived from the spread earned from the bond issuance as well as investment income. HDC takes a portion of the surplus revenues generated semi-annually after paying debt service to its bondholders. These funds go to HDC's corporate services account for future subsidy lending. The Corporation maintains a substantial cushion in the program to ensure that the Resolution passes rating agency stress and HDC has flexibility in taking appropriate credit decisions.

HDC has taken an average of $47 million in net income from its Open Resolution in each of the past five years. Keeping in mind that every dollar of revenue HDC earns goes into the further production of affordable housing, there is an important multiplier effect in HDC's Open Resolution that creates enhanced resources for the Corporation based on the leveraging strategies below. Whereas HDC's overall assets were $4.66 billion in 2003, they are now about $13 billion.

Innovative and Replicable Leveraging Strategies: HDC will re-leverage its portfolio to raise new money for housing programs as it redeems bonds that have higher interest rates. As such, staff analyzes the entire resolution to optimize revenues in the Open Resolution by using the following tools:

Securitization: HDC has provided over $1.5 billion in 1% subordinate loans (which we refer to as subsidy loans) funded from its corporate reserves since 2003. The subsidy loans are structured with interest only payments during the loan term and balloons payable at maturity. The subordinate loans accomplish multiple goals:

-For borrowers, subsidy loans blend interest rates lower and reduce the overall debt service for developments financed by HDC.

-For HDC, after loans are made, the Corporation leverages the subsidy loans by securitizing them on a future date, so the positive cycle continues.

To securitize the subsidy loans, HDC issues taxable bonds, often in pools joined with other taxable loans that the Corporation regularly makes. Given the 1% rate on the subsidy loans, the par amount of loans needed for a securitization is approximately five times the par amount of bonds to be issued. In certain instances where HDC would otherwise be earning a yield above permitted levels, HDC will pledge the related subsidy loans contemporaneously with the bond issuance to reduce the yield.

The resulting proceeds are used to purchase the subsidy loans from HDC's corporate services account. The subsidy loans are then pledged to the Open Resolution to meet debt service on the bonds. HDC treats its subsidy loans as "hard" loans and has rarely deferred interest on these loans. The subsidy loans are subordinate to senior debt but over 99% are current on the interest only payments. These unsecured loans are assigned a valuation by the rating agencies once they are pledged. The funds raised from the securitization will then be used to make new subsidy loans for HDC's affordable housing programs. Since 2003, HDC has generated approximately $500 million in such securitization and re-leveraging proceeds.

Refundings: HDC actively refunds and calls bonds that are optionally redeemable. When structuring a refunding HDC looks beyond ongoing debt service savings threshold. The Corporation also analyzes how it can leverage savings by restructuring the debt and monetizing the upfront savings. The excess proceeds are deposited into its Corporate Services account and available to be lent as subsidy. When refunding Alternative Minimum Tax bonds, HDC prefers taxable bond structures because the rates are at or below AMT levels and also allow The Corporation to keep the spread on the underlying loans. In addition, a taxable refunding allows for easier substitutions or recycling when mortgage loan prepayments occur in comparison to tax exempt deals.

Re-leverage Prepayments: HDC uses prepayments to lend to new projects or call bonds that are optionally redeemable. HDC maximizes this income to offset lost principal and interest that had been received from the prepaying loan. Prepayments of aforementioned subsidy loans at par are particularly helpful because these loans were previously leveraged but now remain in the Open Resolution and are available to fund new loans at higher rates or to redeem higher cost debt.

Recycling and Substituting Loans: Prepayments of originally tax-exempt loans that were subsequently refunded with taxable bonds need not be used to redeem the bonds that were issued to refund the original debt. In certain instances where the refunded bonds have been favorably funded with low rate debt HDC will decide to keep the refunding bonds outstanding and use the prepayment proceeds to internally securitize other loans (either subsidy loans or other multifamily loans held by the Corporation) and not issue additional debt.

Over-Collateralization: Over time, the Open Resolution has significantly more collateral by 120% than the principal amount of the underlying mortgages. This is due in part to securitizing the 1% subsidy loans as well as paying off bonds prior to the loan maturity date. The overcollateralization provides credit quality in the Open Resolution and also means that HDC has significant breathing room to patiently and appropriately resolve any delinquent projects or other required workouts that may arise. Interestingly, with the current low rates this over-collateralization also creates more spread income for the Corporation (interest rates on the index bonds described below are generally below 1%).

Cash Collateral and Un-hedged Variable Rate Debt: Due in part to continuous issuance, the Open Resolution has a significant amount of funds which are cash collateralized. 83.3% of the Open Resolution funds are invested for 5 years or less, and 9% of its portfolio consists of un-hedged variable-rate debt. HDC is earning significant spread on its un-hedged variable rate debt in the current low-interest rate environment. The Corporation's financial strength and over-collateralization means that although un-hedged the Corporation's cash flows are sufficient even under the rating agencies' interest rate stresses. There is interest rate risk involved in this strategy; rising interest rates will reduce HDC's ability to earn spread. However, HDC mitigates this risk with the likely offsetting of increased income from its investment portfolio when rates rise.

Combining Taxable Index Bonds with Fixed Rate Taxable Bonds: In order to take advantage of the current steep yield curve, HDC issues fixed rate serial bonds in first 10-12 years, and indexed floating rate bonds purchased by the Federal Home Loan Bank of NY for the remaining term (with a final maturity of 20-25 years). The market rates will determine the mix of fixed and indexed rate bonds for each bond issuance. The combined approach is prudent as the Corporation benefits from the yield curve, matches the fixed rate bonds with CRA-type investors looking for shorter term bonds and balances the Corporation's desire for floating rate debt with its short term investment portfolio.

Results and Benefits:

HDC's mission is to increase the supply of multi-family housing, stimulate economic growth and revitalize neighborhoods by financing the creation and preservation of affordable housing. This mission can be met when The Corporation has maximized all available revenue. HDC's financial strategies have created corporate reserves used to further the supply of new, and the preservation of existing, affordable housing. HDC has lent approximately $1.5 billion in subsidy loans (raised from the above-described strategies) to finance the construction and preservation of over 80,000 units since 2003.

The overall benefits to New York City residents are tremendous. HDC is able to finance low-income or middle-income housing development that contributes supply to the constrained multifamily housing market. In addition, HDC's flexible programs, bond issuances and significant pool of subsidy allow us to preserve existing low- and middle-income housing developments that might otherwise deteriorate, or in the case of some areas of increasing value, opt-out of affordability programs upon the expiration of their existing regulatory restrictions. Using our array of financing tools will enable us to meet the challenge of our new Mayor's housing plan, which is aggressive but also essential given the need for affordable housing that exists in NYC and indeed in all areas of the country. We believe many of these tools would be similarly effective in the "toolboxes" of our fellow HFAs as they deal with this need in their own cities and localities; and we will make our senior finance staff available to answer questions and provide guidance to assist in that beyond the information provided in this submission.