

New York City Housing Development Corporation  
**The HUD Note Sale: HUD and NYC HDC Partner to Preserve Distressed  
Properties**

As important as new construction is to HDC's mission to create affordable housing in New York City, maintaining the City's low- and moderate-income multi-family housing is an equal priority. Given the current economic climate, a number of these older properties—some of which are in disrepair and in need of substantial attention—are in both financial and physical distress. Some of these properties are previously subsidized, and in many cases, the US Department of Housing and Urban Development (“HUD”) holds the mortgages. In 2009, HDC and the City's Department of Housing Preservation and Development (“HPD”) worked with HUD to set a ground-breaking precedent: persuading the Federal agency to forego its usual open auction proceeding and to sell the mortgages, at a discount, for a portfolio of distressed properties directly to the City of New York. By purchasing these self-amortizing fixed-rate mortgage loans directly from HUD, the City was able to ensure that the properties would be refinanced, comprehensively upgraded and in some cases, placed in the hands of responsible new owners.

The transaction reflects a strategy for preserving affordable housing that relies on a coordinated multi-agency effort as well as the economies of scale that come with a varied portfolio of properties. In making this purchase, HDC paid \$6 million from its unrestricted corporate reserves for the mortgage notes on ten developments containing 1,763 units of occupied affordable housing. HDC and HPD anticipate that it will take approximately \$33 million to fund repairs on all of the properties. This purchase, known internally as the “HUD Note Sale,” also furthers Mayor Michael R. Bloomberg's New Housing Marketplace Plan which is the nation's largest municipal plan to preserve and create low-, moderate- and middle-income housing throughout the City's five boroughs.

Prior to the HUD Note Sale, HDC and HPD were faced with providing aid to troubled buildings on a case-by-case basis; to date HDC and HPD have preserved more than 50 HUD multi-family developments, with more than 14,100 units and approximately \$845 million in investment. Often, needy structures had already fallen into severe disrepair long before their condition could be addressed. Now, through the portfolio purchase, the timely (and in some cases preemptive) renovation of these ten developments—and their combined 1,763 residential units—can be undertaken in a coordinated manner.

In conjunction with HPD, HDC employs its affordable housing programs to refinance the debt, fund major renovations and, if needed, transfer properties to new ownership. In order to ensure the smoothest transition for both tenants and building owners alike, HDC has worked with new and existing owners to retain Section 8 funding as well as to refinance and recapitalize struggling projects. The buildings in the portfolio, most of which are at 95% occupancy, will retain their residents during the renovation process.

In addition to the availability of existing agency program funding, the HUD Note Sale portfolio benefits from the creation of a Repair Revolving Fund (“RRF”), which is funded from a portion of the mortgage revenue generated by the portfolio loans. By acquiring the portfolio at a discount (the unpaid principal balance at the time of acquisition was \$15.5 million), HDC is able to build substantial preservation funding through the RRF. Monies in the RRF are made available as repair loans or grants to the portfolio properties.

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The HUD Note Sale properties are located in Manhattan, the Bronx and Brooklyn. Since acquiring the notes in 2009, HDC and HPD have refinanced and provided funds for the renovations of four of the ten developments with 683 units with a total investment of \$62 million in tax exempt bonds and subsidies.

While this undertaking does pose some financial risk for HDC in terms of the potential for mortgage default, HDC believes that the comprehensive strategy coupled with the opportunity to acquire the portfolio at such a discount mitigates any serious concerns.

HDC and HPD believe the HUD Note Sale transaction can become a standard means of addressing properties in need through large-scale portfolios rather than through single building purchases. This type of portfolio purchase could be replicated by other jurisdictions nationally ensuring that distressed properties are transferred to responsible owners and needed repairs are undertaken to the benefit of tenants.