# Presentation
# on

NYC HDC

# Financing Mixed-Income Developments
## (Forward Securitization and HDC $M^2$ Program)

**NCSHA Panel**

**October 22, 2019**

# FINANCING MIXED INCOME DEVELOPMENTS

- New York City is a notoriously expensive city both to build and operate housing.

- Mixing low, moderate and middle-income housing is an essential component of any strategy to promote long-term community revitalization and economic diversity throughout the City's neighborhoods.

- The City is better when a mix of low, moderate and middle-income workers can afford to raise their families within the five boroughs.

# FINANCING MIXED INCOME DEVELOPMENTS

- The Mix Middle ($M^2$) Program requires all units be affordable through the **50/30/20 model**:
  - 50% of units for households earning between 130% of AMI and 165% of AMI (middle income)
  - 30% of units for households earning between 80% of AMI and 100% of AMI (moderate income)
  - 20% of units for households earning less than or equal to 50% of AMI (very low income)

- The $M^2$ rents are preserved at affordable levels while market rents in the area continue to escalate.

- The $M^2$ Program provides economic diversity in the City's neighborhoods by producing affordable units, which serve a variety of income levels.

## BENEFITS OF MIXED INCOME PROJECTS

- ***More economically feasible.*** Tax credit equity and TE bonds generated by the low-income units benefits the financing of the entire project.

- ***Greater income diversity and deeper affordability.*** The higher middle-income rents create enough cross-subsidy to enable the low-income units to provide deeper affordability to very low-income households at 40 and 50 percent of AMI.

# FORWARD SECURITIZATION STRATEGY

- Realizing an opportunity to take advantage of the current low-interest rate environment and long-term outlook for the yield curve, HDC adapted an innovative forward securitization strategy that creates cost-effective future lending capacity.

- This structure provides a no-cost forward rate lock on future lending proceeds at current low tax-exempt rates.

- This strategy also can reduce the amount issued for a mixed income project at the start of construction by re-using loan proceeds prepaid by a low-income project during conversion.

# HDC'S STANDARD LIHTC BOND ISSUANCE

**HDC issues $70M LT and $70M ST bonds**

TE Bond proceeds are utilized to originate senior loans for qualified low income projects.

TC equity at conversion is used to pay down $70M of the loans. *Prepayments are used to recycle/call short term bonds.*

**$190M in Total Loan Proceeds to Borrowers**

**HDC Corporate Reserves**

Funds $50M of 1% HDC subordinate loans for qualified low income projects.

# HDC'S FORWARD SECURITIZATION STRUCTURE

**HDC issues $120M LT and $20M ST bonds**

TE bond proceeds are utilized to provide $90M of senior loans and $50M of HDC subordinate loans needed for qualified low income projects.

TC equity at conversion used to pay down $70M of the loans. $20M in prepayments used to recycle/call short term bonds. $50M used to repay corporate reserves.

**$190M in Total Loan Proceeds to Borrowers**

**HDC Corporate Reserves**

Funds $50M of LIHTC Senior Loans

| Standard LIHTC Bond Issuance | Forward Securitization Structure |
| --- | --- |
| **At Conversion:**<br>• $70M of permanent loans are funded with LT TE bonds;<br><br>• $50M of subordinate loans are funded with HDC corporate reserves; and<br><br>• $70M of prepayments are used for recycling | **At Conversion:**<br>• $70M of perm loans are funded with LT TE bonds<br><br>• $50M of sub loans are funded with LT TE bonds<br><br>• $20M of prepayments are used for recycling<br><br>• $50M of corporate reserves can be re-lent to separate projects such as the $M^2$ program<br><br>These new $M^2$ loans are pledged to the Open Resolution to support cash flows. This allows for a forward financing at a low TE rate established several years earlier. This further reduces the negative arbitrage on the new $M^2$ loans. |

## BENEFITS OF FORWARD SECURITIZATION & ITS APPLICATION TO MIXED INCOME PROJECTS

- Forward securitization creates future tax-exempt equivalent lending capacity which can be used to finance any upcoming taxable or tax-exempt projects including the permanent take out for large mixed income projects.

- When applying to large mixed-income projects, forward securitization further reduces the negative arbitrage on the respective new loans because those LT bonds are repurposed for permanent takeout.

- Issuers can further save on the cost of issuance for financing new projects because less bonds are issued overall through the repurpose of those LT bonds.

# REPLICABILITY AND BENEFITS

- Given the current low rates and flatter yield curve, the difference between the negative arbitrage on the short and long term bonds is minimized and is covered by both the cost of issuance charged by HDC for the $M^2$ Program project and if necessary, by HDC.

- HDC believes that the $M^2$ Program is a replicable model that serves a common need for producing income diverse neighborhoods as mandated by the federal government.

- If issuers provide subsidy for affordable housing in a flexible parity resolution, they can pledge their subsidy loans and increase the amount of permanent loans they can issue in the future at a low fixed interest rate.

# HDC USE OF $M^2$ AND FORWARD SECURITIZATION

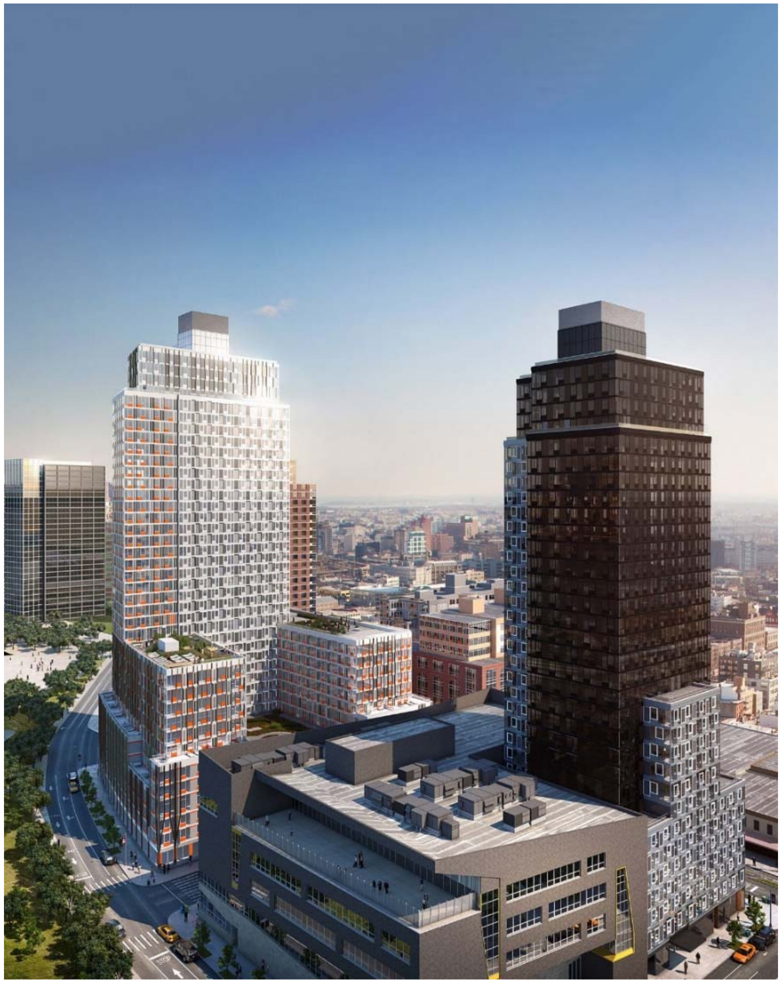
- Since June of 2018, HDC has financed 25 developments with 7,730 units of affordable housing using the $M^2$ Program.

- HDC started using the Forward Securitization Structure in June 2018 and to date $230 million of future lending capacity has been generated.

- HDC diligently tracks its uses of the available forward loan funds and its forward lending commitments.

# Hunter's Point South – North and South Tower

- **Two newly constructed mixed-used, mixed-income towers located in Long Island City, Queens.**
- **1194 mixed-income affordable and market rate units**
- **100 units reserved as Affordable Independent Residences for Seniors (AIRS)**
- **719 units will be permanently affordable**
- **Breakdown of Affordability:**
    - 30 units- households earning up to 40% of AMI
    - 210 unit- households earning up to 50% of AMI
    - 130 units- households earning up to 130% of AMI
    - 349 units- households earning up to 165% of AMI
    - 473 market rent units
- **Amenities include a community space, children's play room, fitness center, laundry facility, 150 parking spaces, bike storage, outdoor landscape terrace, and a large plaza and sculpture garden.**
- **There will be two ground-floor retail spaces and a senior center operated by Self-help Community Services Inc.**



# Questions & Answers

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