

**CITI MONITORSHIP**  
SIXTH REPORT FEBRUARY 2017

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## I. INTRODUCTION

This is the sixth report of the Monitor pursuant to the Settlement Agreement among Citigroup, Inc. (“Citi”), the U.S. Department of Justice (“DOJ”), and the states of California, New York, Illinois, Delaware, and the Commonwealth of Massachusetts (collectively, the “Settling States”).

As explained in the Monitor’s prior reports, Citi agreed as part of the Settlement Agreement to pay \$4.5 billion to the settling governmental entities, acknowledged a statement of facts attached to the Settlement Agreement as Annex 1, and agreed to provide consumer relief valued at \$2.5 billion under the principles set forth in Annex 2 of the Settlement Agreement.<sup>1</sup> In addition, the Settlement Agreement appointed Thomas J. Perrelli to serve as an independent monitor (the “Monitor”) to determine Citi’s compliance with the consumer relief and corresponding requirements of Annex 2 of the Settlement Agreement.

This sixth report is devoted to reviewing and crediting Citi’s lending to affordable rental housing projects as required by Menu Item 5 of Annex 2. It provides as follows:

- A summary of the credit earned by Citi, to-date and pursuant to Menu Item 5;
- A brief overview of the affordable rental housing market in the United States;
- A description of Citi’s affordable rental housing obligations under the Settlement Agreement;
- An analysis of how Citi met these obligations;
- An explanation of the Monitor’s validation process; and
- Some observations about the effectiveness of the Menu Item 5 obligations and relief.

## II. SUMMARY OF CREDIT EARNED

In this report, the Monitor confirms that Citi earned an additional \$744,974,158 in credit under Menu Item 5 for anticipated losses on subordinate loans to 118 affordable rental housing projects. This credit is based on Citi’s \$189,995,520 in subordinate financing commitments for the construction of new, or rehabilitation of existing, affordable rental housing across the country.

Per Annex 2, and as described more fully below, Citi received \$3.75 in credit for every \$1.00 of loss for Critical Need Family Housing (“CNFH”) developments and \$3.25 in credit for every \$1.00 of loss on other developments meeting the Settlement’s criteria. CNFH developments are affordable rental housing projects selected by Citi that (i) are located within Small Area Difficult Development Areas (“DDAs”) or State-Defined High Opportunity/ Low Poverty Areas, and (ii) none of the units have age restrictions for any of the occupants. Citi also received an additional 15 percent bonus credit for projects that received a Subordinate Loan Commitment by October 1, 2015.

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<sup>1</sup> The Settlement Agreement and the Monitor’s previous reports are available at [www.citigroupmonitorship.com](http://www.citigroupmonitorship.com).

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Table 1, below, provides a breakdown of the number of projects funded, value of subordinate financing, and credit earned by Citi pursuant to Menu Item 5 of the Settlement Agreement, by quarter.

**Table 1: Menu Item 5 Credit Earned**

	Projects Funded	Subordinate Loan Commitment Amount	Settlement Credit Earned
Second Quarter 2015	83	\$138,544,520	\$550,772,177
Third Quarter 2015	20	\$31,677,000	\$123,873,785
Fourth Quarter 2015	10	\$13,255,000	\$47,370,106
First Quarter 2016	5	\$6,519,000	\$22,958,090
<b>Total to Date</b>	<b>118</b>	<b>\$189,995,520</b>	<b>\$744,974,158</b>

## III. AFFORDABLE RENTAL HOUSING IN THE UNITED STATES

### A. The Need for Affordable Rental Housing

Affordable housing is a key tenet of local, state, and federal policy. As policymakers and officials have long recognized, access to safe, affordable housing is an important foundation of a stable and well-functioning society.<sup>2</sup> The lack of low-cost housing options undermines the quality of life for families, forcing difficult trade-offs in both housing quality and spending on other vital needs.<sup>3</sup> Studies have shown that quality affordable housing options promote positive outcomes in education, employment, physical health and mental health.<sup>4</sup>

Housing is considered “affordable” if it costs no more than 30 percent of household income, but almost half of all renters pay more than 30 percent of their income for housing. As of 2015, 43.7 million households rented and 21.4

<sup>2</sup> See, e.g., *FY 2016 Budget Request for the Department of Housing and Urban Development: Hearing Before the Subcomm. on Transp., Hous. and Urban Dev., and Related Agencies H. Comm. on Appropriations*, at 6 (February 25, 2015) (written testimony of Julian Castro, Sec’y of U.S. Dep’t of Hous. and Urban Dev.), available at <https://portal.hud.gov/hudportal/documents/huddoc?id=fy2016budgettest.pdf>; *FY 2014 Budget Request for the Department of Housing and Urban Development: Hearing Before the Subcomm. on Transp., Hous. and Urban Dev., and Related Agencies S. Comm. on Appropriations*, at 11 (April 11, 2013) (written testimony of Shaun Donovan, Sec’y of U.S. Dep’t of Hous. and Urban Dev.), available at <https://portal.hud.gov/hudportal/documents/huddoc?id=HUDFY2014BudgReq.pdf>.

<sup>3</sup> *America’s Rental Housing – Evolving Markets and Needs*, Joint Center for Housing Studies of Harvard Univ., Dec. 9, 2013, at 32, available at [http://www.jchs.harvard.edu/sites/jchs.harvard.edu/files/jchs\\_americas\\_rental\\_housing\\_2013\\_1\\_0.pdf](http://www.jchs.harvard.edu/sites/jchs.harvard.edu/files/jchs_americas_rental_housing_2013_1_0.pdf).

<sup>4</sup> See, e.g., *Affordable Housing Cost Study: Analysis of the Factors that Influence the Cost of Building Multi-Family Affordable Housing in California*, Cal. Dep’t of Hous. and Cmty. Dev., Cal. Tax Credit Allocation Comm., Cal. Hous. Fin. Agency, and Cal. Debt Limit Allocation Comm., October 6, 2014, at 9-19, available at [http://www.treasurer.ca.gov/ctcac/affordable\\_housing.pdf](http://www.treasurer.ca.gov/ctcac/affordable_housing.pdf) (reviewing the literature on the benefits of affordable housing); Keith Wardrip, Laura Williams, and Suzanne Hague, *The Role of Affordable Housing in Creating Jobs and Stimulating Local Economic Development: A Review of the Literature*, Center for Housing Policy, January 2011, available at <http://www2.nhc.org/media/files/Housing-and-Economic-Development-Report-2011.pdf>.

million paid more than 30 percent of their income in rent (49.1% of total renters).<sup>5</sup> And one quarter of households with the lowest incomes, representing over one million families, paid over 70 percent of their income on housing.<sup>6</sup>

The Department of Housing and Urban Development (“HUD”) defines those with the “worst case housing needs” as those households that have very low incomes (less than half of the average median income for a location), pay more than half of their incomes in housing costs, and do not receive any government housing support.<sup>7</sup> In 2013, there were 7.7 million households in the United States that were deemed to have worst case housing needs.<sup>8</sup>

Affordable housing, which is subsidized by the government, provides housing that is capped at the 30-percent-of-income standard. But the demand for affordable rental housing in the United States far outstrips the supply. Indeed, only one third of low-income renters in America receive federal subsidies, including the 1 percent who live in rent-controlled units, the 15 percent who live in public housing, and the remaining 17 percent who receive some sort of rent subsidy.<sup>9</sup> HUD reports that, as of 2013, there are only 39 affordable units per 100 renters in need.<sup>10</sup>

This shortage in affordable housing is generally acknowledged to be caused by a combination of wage stagnation, rising rents, and an inadequate growth in affordable units. From 1993 to 2013, the number of households eligible for federal rental housing grew by almost 4 million, while only an additional 500,000 households received federal assistance.<sup>11</sup> One study cites that in 2011, 11.8 million renters with extremely low income (less than 30 percent of area median income (“AMI”)) competed for 6.9 million rentals affordable at that income cutoff—a shortfall of 4.9 million units.<sup>12</sup>

## B. The Financing of Affordable Rental Housing

Most affordable rental housing is built by private developers who receive public subsidies from the federal government and/or state and local governments. These subsidies take a variety of forms, including federal tax credits and “soft dollar” subordinate loans. The availability and size of these subsidies varies across the country.

The typical sources of financing the new construction or rehabilitation of affordable housing are senior loans from private lenders, equity from investors purchasing Low-Income Housing Tax Credits (“LIHTC”), and deferred developer fees. The gap between the sum of these sources and the costs of development is often filled with subsidies structured as “soft dollar” loans that are subordinate to the senior financing and often structured so that there are minimal interest payments and little likelihood of principal repayment. This so-called “gap financing” or “mezzanine financing” almost always comes in the form of a government subsidy (from a state or local housing authority, with a combination of federal, state, and local funds). Soft dollar loans are usually the scarcest source of financing for affordable housing developments and thus often the limiting factor in such developments.

Citi provided the Monitor with the following illustration of a typical ownership structure for an affordable housing project using LIHTC, a senior commercial loan, and soft dollar gap financing.

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5 U.S. Census Bureau Releases 2015 American Community Survey, NATIONAL LOW-INCOME HOUSING COALITION (Sept. 16, 2016), <http://nlihc.org/article/us-census-bureau-releases-2015-american-community-survey>.

6 Matthew Desmond, *Unaffordable America: Poverty, housing, and eviction*, UNIV. OF WISCONSIN-MADISON INST. FOR RESEARCH ON POVERTY FAST FOCUS NO. 22-2015, 1 (March 2015), available at <http://scholar.harvard.edu/files/mdesmond/files/fastfocus2015.pdf>.

7 BARRY L. STEFFEN ET AL., HUD, WORST CASE HOUSING NEEDS: 2015 REPORT TO CONGRESS, at vii (Apr. 2015), available at [https://www.huduser.gov/portal/Publications/pdf/WorstCaseNeeds\\_2015.pdf](https://www.huduser.gov/portal/Publications/pdf/WorstCaseNeeds_2015.pdf)

8 *Id.* at iii.

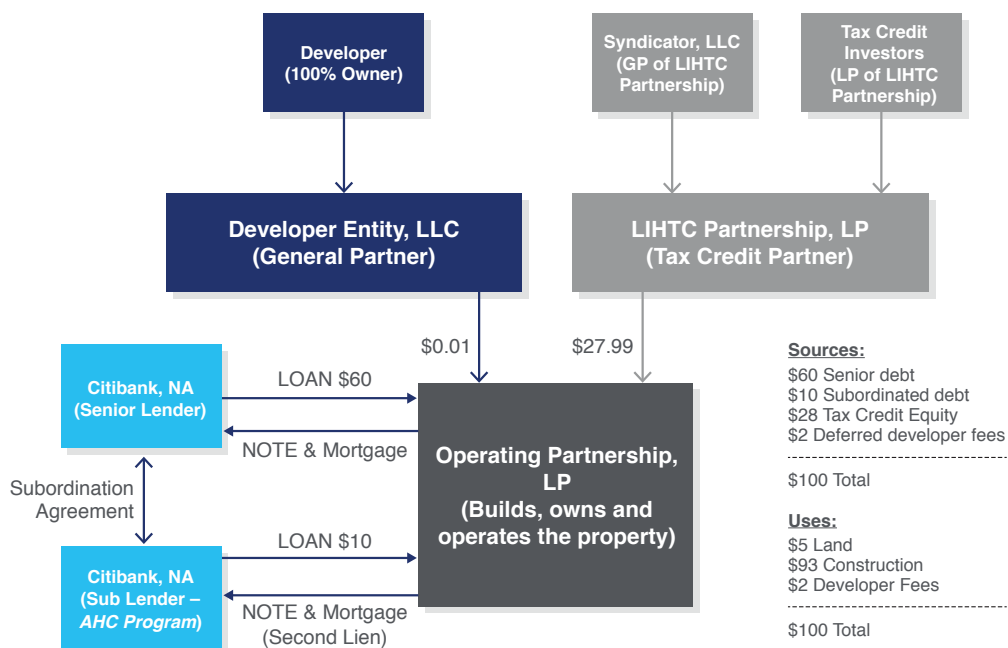
9 Matthew Desmond, *supra* note 6, at 2.

10 STEFFEN ET AL., *supra* note 7, at viii.

11 *The State of the Nation's Housing 2016*, Joint Center for Housing Studies of Harvard Univ., June 22, 2016, at 33, available at [http://www.jchs.harvard.edu/sites/jchs.harvard.edu/files/jchs\\_2016\\_state\\_of\\_the\\_nations\\_housing\\_lowres.pdf](http://www.jchs.harvard.edu/sites/jchs.harvard.edu/files/jchs_2016_state_of_the_nations_housing_lowres.pdf).

12 *America's Rental Housing*, *supra* note 3, at 6.

**Chart 1: Typical Affordable Housing Ownership Structure**



Each of these components, tax credits, senior commercial loans, and gap financing, is described further below:

**LIHTC.** Congress created LIHTC as part of the 1986 Tax Reform Act to act as a subsidy for the private development of affordable rental housing in order to increase private investment in affordable developments. It is a federal tax credit program administered by state housing finance agencies to subsidize rental housing construction and rehabilitation. The state agencies allocate the available credits based on Qualified Allocation Plans (“QAPs”) to developers for specific projects who then sell the credits to investors. Investors receive dollar-for-dollar credits and the revenue becomes equity for the affordable housing project. Generally, these tax credits are received over ten years and are subject to forfeiture if the project does not remain compliant with the various LIHTC rules and requirements for at least 15 years. A further explanation of LIHTC requirements is set forth below, in Section IV.B.

**Commercial Lending.** LIHTC equity, by itself, is insufficient to finance affordable housing developments. Projects also rely on being able to secure tax-exempt or taxable construction and permanent loans from commercial lenders or federal agencies. As described in Section IV, Citi is a major lender in the affordable housing industry and also a LIHTC equity investor. Citi (as well as other national banks) has substantial incentives to provide these loans as part of its Community Reinvestment Act (“CRA”) obligations. The CRA requires banks to make “community development loans” in the communities where it does business, including loans to support affordable housing that primarily benefits low- or moderate-income individuals.<sup>13</sup>

<sup>13</sup> See generally Vonda Eanes, *How Affordable Housing Qualifies for Community Reinvestment Act Consideration*, OFFICE OF THE COMPTROLLER OF THE CURRENCY (May 2015), <https://www.occ.gov/publications/publications-by-type/other-publications-reports/cdi-newsletter/small-multifamily-rental-spring-2015/small-multifamily-rental-ezine-article-1-look.html>.

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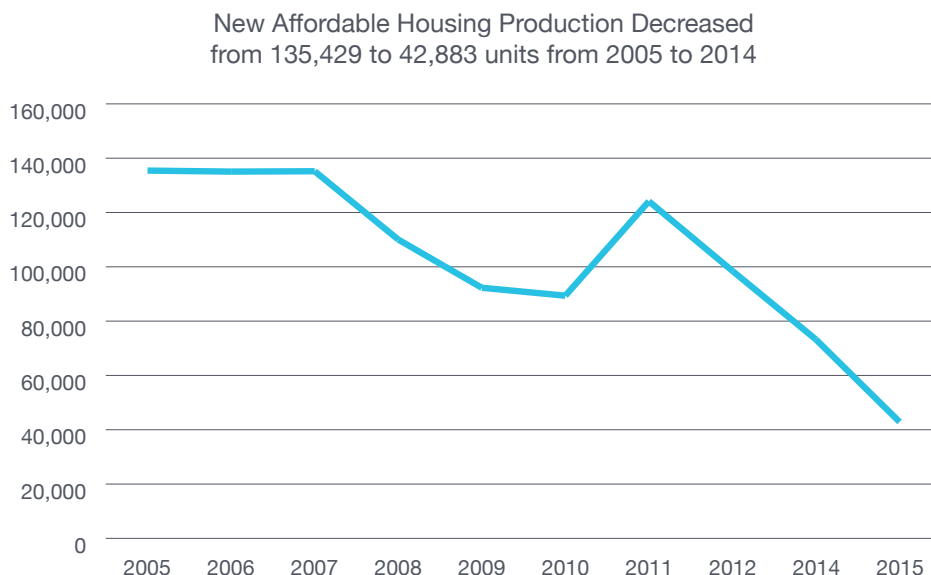
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**Gap Financing.** As described above, the gap between the costs of development and the LIHTC and debt financed sources are generally bridged through additional government subsidies known as soft dollar funding. The federal government provides funding for such financing, via the states, through HUD's HOME Investment Partnerships Program ("HOME") and Community Development Block Grant programs. HOME is the largest Federal block grant to state and local governments designed exclusively to create affordable housing for low-income households.<sup>14</sup> HOME requires a matching investment of 25 percent from the participating local government.

The Federal Home Loan Banks ("FHLBs"), which are regulated by the Federal Housing Finance Agency and registered with the Securities and Exchange Commission, also provide gap financing through the Affordable Housing Program ("AHP"), a competitive application process that provides a minimum of 10% of the FHLB's net earnings as grants to finance affordable housing.<sup>15</sup> State, county, and municipal governments also frequently provide additional gap financing through soft dollar subordinate loans. The availability of state, county, and municipal soft financing varies widely throughout the country.

During the financial crisis and its aftermath, gap funding for affordable rental projects has been reduced or eliminated, particularly due to ongoing budget pressure at the federal, state and local levels, making the need for affordable rental housing financing even greater. Since 2010, appropriations for HOME have declined 47 percent, from \$1.8 billion in 2010 to \$900 million in 2015.<sup>16</sup> Further, according to HUD, the number of affordable rental units created with LIHTC decreased 68% from 2005 to 2014.<sup>17</sup>

**Chart 2: LIHTC-Funded Units Per Year<sup>18</sup>**



14 See HOME Investment Partnership Programs, HUD.gov.

[https://portal.hud.gov/hudportal/HUD?src=/program\\_offices/comm\\_planning/affordablehousing/programs/home/](https://portal.hud.gov/hudportal/HUD?src=/program_offices/comm_planning/affordablehousing/programs/home/) (last visited Dec. 14, 2016).

15 See FEDERAL HOUSING FINANCE AGENCY, EXAMINATION MANUAL, AFFORDABLE HOUSING PROGRAM 1 (Apr. 2013), available at [https://www.fhfa.gov/SupervisionRegulation/Documents/Affordable\\_Housing\\_Program\\_Module\\_Final\\_Version\\_1.0\\_508.pdf](https://www.fhfa.gov/SupervisionRegulation/Documents/Affordable_Housing_Program_Module_Final_Version_1.0_508.pdf)

16 See CPD Appropriations Budget, HUD.gov, [http://portal.hud.gov/hudportal/HUD?src=/program\\_offices/comm\\_planning/about/budget](http://portal.hud.gov/hudportal/HUD?src=/program_offices/comm_planning/about/budget) (last visited Dec. 14, 2016).

17 See HUD's LIHTC Database: Projects Placed in Service Through 2014, OFFICE OF POLICY DEV. AND RESEARCH, HUDUSER.GOV, <https://www.huduser.gov/portal/Datasets/lihtc/tables9514.pdf>.

18 See *id.* at 3 ("Characteristics of LIHTC Projects 1995-2014").

## IV. CITI'S AFFORDABLE RENTAL HOUSING OBLIGATIONS UNDER THE SETTLEMENT AGREEMENT

### A. A New Form of Relief

Citi's obligation to provide gap financing to affordable rental housing projects was a novel component of this Settlement Agreement when it was signed. Prior DOJ settlements arising out of the housing and financial crisis, including the National Mortgage Settlement and the JP Morgan Chase RMBS Settlement, focused on relief to current or future homeowners, and did not include affordable rental housing components.<sup>19</sup> However, beginning with this Settlement Agreement, the more recent RMBS settlements have included provisions requiring the settling banks to provide gap financing for the development of affordable rental housing. Bank of America, Goldman Sachs, and Morgan Stanley all entered into RMBS settlements that included lending for affordable rental housing.<sup>20</sup>

### B. Menu Item 5 Requirements

Menu Item 5 provides the required steps for Citi to gain consumer relief credits in the form of the development, rehabilitation, or preservation of affordable rental housing. The provisions of Menu Item 5 are complex, as is the calculation of credit. As discussed below, Citi's credit is dependent upon the amount of loss it is likely to incur as a result of providing gap financing (which is, in most instances, not expected to be repaid). At a minimum, Citi is required to book \$180 million in loss for Menu Item 5.

Credits earned under Menu Item 5 may be given for developments that are (1) equivalent to affordable housing developed under the Federal LIHTC Program; (2) meet affirmative fair housing marketing standards as are required for all Fair Housing Act programs and set forth in 24 C.F.R. § 200.620; and (3) accept Housing Choice Vouchers. At least half of the units generating credits under this Menu Item must be in CNFH developments.

#### 1. Critical Need Family Housing

CNFH developments are housing developments that (1) are located within Small Area DDAs or State-Defined High Opportunity/Low Poverty Areas, and where (2) none of the units have age restrictions for any of the occupants.

At least 50% of the affordable rental units generating credit under Menu Item 5 must be in CNFH developments. Within this universe, at least 40% of all affordable rental units generating credit in CNFH developments each year must have 2 or more bedrooms. And at least 10% of all affordable rental units generating credit in CNFH developments each year must have 3 or more bedrooms.

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<sup>19</sup> Settlement Documents, NMS, available at <http://www.nationalmortgagesettlement.com/settlement-documents> (last visited Dec. 14, 2016); Chase RMBS Settlement website, <https://www.jasmithmonitoring.com/chase/> (last visited Dec. 14, 2016); Chase RMBS Settlement Agreement (Nov. 19, 2013), available at <https://www.jasmithmonitoring.com/chase/wp-content/uploads/sites/3/2014/05/Settlement-Agreement.pdf>.

<sup>20</sup> Bank of America Settlement Agreement, Annex 2 (Aug. 20, 2014), available at <http://bankofamerica.mortgagesettlementmonitor.com/Settlement-Agreement-Documents/Settlement-Agreement-Bank-of-America-Consumer-Relief-Annex-2.pdf>; Report from the Monitor of the 2014 Bank of America Mortgage Settlement (July 31, 2015), <http://bankofamerica.mortgagesettlementmonitor.com/Reports/July-31-2015-Report-2014-Bank-of-America-Mortgage-Settlement.pdf>. Goldman Sachs Settlement Agreement (Apr. 11, 2016), available at <http://goldmansachs.mortgagesettlementmonitor.com/Settlement-Agreement-Documents/Goldman-Sachs-Settlement-Agreement.pdf>. Morgan Stanley Settlement Agreement, Appendix B (Feb. 11, 2016), available at <http://morganstanley.mortgagesettlementmonitor.com/Settlement-Agreement-Documents/Morgan-Stanley-Settlement-Agreement.pdf>.

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### *Small Area DDAs.*

DDAs are areas designated by the Secretary of HUD that have high construction, land, and utility costs relative to the Area Median Gross Income (“AMGI”).

For the purposes of the Settlement, the relevant Small Area DDAs for 2014 were contained in a list of Hypothetical Small Area DDAs. This list was transmitted to Citi by the DOJ when the Settlement was executed, and lists for subsequent years were available on HUD’s website. The Hypothetical Small Area DDAs for 2014 were compiled in a different manner than DDAs are currently otherwise compiled for the purposes of the LIHTC. Instead, these areas were developed in line with the changed methodology planned for 2016 and forward.

Small Area DDAs are defined at the ZIP Code level. The Hypothetical Small Area DDAs rely on FY2013 Small Area Fair Market Rents, which in turn are based on the FY2013 Metropolitan Fair Market Rents, and the 2006-2010 American Community Survey ZIP code median rent data. This data is used to estimate rent relationships among and between ZIP codes within the same metropolitan area. These ZIP code areas are known as ZIP Code Tabulation Areas (“ZCTAs”).

Generally, Small Area DDAs are identified by first calculating a ratio of costs to income for all ZCTAs. The calculation looks something like this:<sup>21</sup>

$$\frac{\text{Development Cost of Housing}}{\text{Maximum Income of Eligible Tenants}}$$

Once this ratio is calculated for each ZCTA, those ZCTAs with the highest ratios, cumulative to 20% of the 2010 population of all metropolitan ZCTAs, are designated as the universe of Small Area DDAs.

### *State-Defined High Opportunity/Low Poverty Areas.*

State-Defined High Opportunity/Low Poverty Areas refers to “high opportunity” or “low poverty” areas as defined in State QAPs (for those states that use such designations).

Every year, each state agency allocating tax credits is required to prepare a QAP, which outlines the housing priorities for the state and creates the rules by which competitive applicants will be scored.<sup>22</sup> A state may choose, as a policy matter, to incentivize affordable housing in neighborhoods with low poverty rates and high opportunities for residents, as these communities can provide access to good schools and community infrastructure, which may provide opportunities for lower-income families to succeed and produce positive outcomes, including better job opportunities, better access to health care, etc.<sup>23</sup> According to one source, a review of state QAPs showed that about one third of those reviewed included incentives for locating LIHTC developments in high-opportunity neighborhoods.<sup>24</sup>

21 For a more fulsome explanation of the calculation used in identifying Small Area DDAs, see Statutorily Mandated Designation of Difficult Development Areas for 2014, 78 Fed. Reg. 69113, 69115 (Nov. 18, 2013).

22 See *Qualified Allocation Plan*, Nat’l Housing Law Project, NHLP.ORG, <https://nhlp.org/node/515> (last visited Dec. 14, 2016).

23 *Id.*

24 Lawyers’ Committee for Civil Rights Under Law, *Best Practices: Using the QAP to Create Opportunity in Louisiana*, March 2013, at 16, available at <https://lawyerscommittee.org/wp-content/uploads/2015/06/Best-Practices-Using-the-QAP-to-Create-Opportunity-in-Louisiana.pdf>.

## 2. Low Income Housing Tax Credits

As described above, the LIHTC is a tax incentive intended to increase the availability of low-income housing by providing an income tax credit to owners of newly constructed or substantially rehabilitated low-income rental housing projects.

The credits allocated to a particular building are based on the cost of units placed in service as low-income units under particular minimum occupancy and maximum rent criteria. In general, a building must meet one of two thresholds to be eligible for the LIHTC:

- (1) 20 percent of the units must be rent-restricted and occupied by tenants with incomes no higher than 50 percent of the AMGI; or
- (2) 40 percent of the units must be rent-restricted and occupied by tenants with incomes no higher than 60 percent of AMGI.

See 26 U.S.C. § 42(g)(1). A residential unit is rent-restricted if the gross rent with respect to such unit does not exceed 30 percent of the imputed income limitation applicable to such unit. 26 U.S.C. § 42(g)(2).<sup>25</sup>

These rent and occupancy thresholds must remain in effect for at least 15 years. While LIHTC investors can exit before then, tax credits can be clawed back if the affordable standards are not met for all 15 years. Moreover, building owners are required to enter into agreements to maintain the low-income character of the building for at least an additional 15 years because required Land Use Restriction Agreements must last 30 years during which the affordability of those units is protected.

In addition, to qualify for LIHTC, developments must agree to accept Housing Choice vouchers. The Housing Choice voucher program is the federal government's major program for assisting very low-income families, the elderly, and the disabled to afford decent, safe, and sanitary housing in the private market.<sup>26</sup> The participant is free to choose any housing that meets the requirements of the program and is not limited to units located in subsidized housing projects.

## 3. Measuring Loss

As described in Annex 2, Citi gets credit based on its anticipated loss from providing the gap financing. Loss is measured as the difference between the fair value and par value, as reflected on the books and records of Citi, on the origination date of the subordinated loan made to facilitate the construction, rehabilitation or preservation of affordable rental multi-family housing. Origination date is the date that the commitment to lend is issued, and is the determinative date for crediting purposes. See Part VI.B for further discussion of how loss was valued.

If any loss is substantially reversed due to cancellation of the project during the term of the RMBS Settlement consumer relief program, Citi shall receive credit for the actual loss it incurred.<sup>27</sup>

<sup>25</sup> See 26 U.S.C. § 42(g)(2)(B)-(C) for relevant definitions of "gross rent" and "imputed income limitation applicable."

<sup>26</sup> Housing Choice Vouchers Fact Sheet, HUD.gov, [https://portal.hud.gov/hudportal/HUD?src=/program\\_offices/public\\_indian\\_housing/programs/hcv/about/fact\\_sheet](https://portal.hud.gov/hudportal/HUD?src=/program_offices/public_indian_housing/programs/hcv/about/fact_sheet) (last visited Dec. 14, 2016).

<sup>27</sup> See footnote 23 of Annex 2 of the Settlement Agreement.

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Citi will earn \$3.75 in credit for every \$1.00 of loss incurred for CNFH developments and will earn \$3.25 in credit for every \$1.00 of loss incurred for all other developments. Pursuant to the Settlement Agreement, Citi received an additional 15 percent bonus for projects that received Subordinate Loan Commitments by October 1, 2015. The amount of credit earned is based on the actual location of the project, that is, whether the project is located within a Small Area DDA or a State-Defined High Opportunity/Low Poverty Area and is thus characterized as a CNFH development.

Each affordable housing unit is only eligible to earn a maximum of \$100,000 in credit.

#### 4. Affirmative Fair Housing Marketing Standards

In order to receive credit under Menu Item 5, the developments must meet the same affirmative marketing standards as are set forth in 24 CFR § 200.620. This provision requires applicants participating in Fair Housing Act programs to meet the following requirements:

- (a) Carry out an affirmative program to attract buyers or tenants, regardless of sex, handicap or familial status, of all minority and majority groups to the housing for initial sale or rental. An affirmative marketing program shall be in effect for each multifamily project throughout the life of the mortgage. Such a program shall typically involve publicizing to minority persons the availability of housing opportunities regardless of race, color, religion, sex, handicap or familial status or national origin, through the type of media customarily utilized by the applicant, including minority publications or other minority outlets which are available in the housing market area. All advertising shall include either the Department-approved Equal Housing Opportunity logo or slogan or statement and all advertising depicting persons shall depict persons of majority and minority groups, including both sexes.
- (b) Maintain a nondiscriminatory hiring policy in recruiting from both minority and majority groups, including both sexes and the handicapped, for staff engaged in the sale or rental of properties.
- (c) Instruct all employees and agents in writing and orally in the policy of nondiscrimination and fair housing.
- (d) Specifically solicit eligible buyers or tenants reported to the applicant by the Area or Insuring Office.
- (e) Prominently display in all offices in which sale or rental activity pertaining to the project or subdivision takes place the Department-approved Fair Housing Poster and include in any printed material used in connection with sales or rentals, the Department-approved Equal Housing Opportunity logo or slogan or statement.
- (f) Post in a conspicuous position on all FHA project sites a sign displaying prominently either the Department-approved Equal Housing Opportunity logo or slogan or statement.

If the applicant contracts marketing responsibility to another party, the applicant nonetheless remains responsible for the performance of the foregoing requirements. Because the monitorship over Citi is limited in time, this obligation focuses on ensuring that the applicant has committed to marketing consistent with the foregoing standards.

## V. CITI'S FINANCING OF AFFORDABLE RENTAL HOUSING

Citi is the largest lender to affordable rental housing projects in the United States and has been nearly every year since 2006, the first year this data was published.<sup>28</sup> In the past three years, published reports have indicated that Citi has provided \$10.6 billion of lending to finance affordable rental housing projects, including \$4.83 billion in 2015, which was \$1.5 billion more than the next largest lender, and over \$1.5 billion more than Citi lent to affordable rental housing projects in 2014.<sup>29</sup> Citi provides senior financing for affordable rental housing through Citi Community Capital.

While Citi is an experienced player in the industry, it had not provided subordinate financing to affordable housing developments before the Settlement Agreement. Indeed, private lenders generally did not make subordinate loans to these projects before the recent settlement agreements. As discussed above, subordinate financing for affordable housing projects had traditionally been provided by governmental entities who treated these types of loans as “soft dollar” loans that are unlikely to be paid back in full (or perhaps even at all) as a way to encourage much-needed development.

### A. Citi's Expectations

Since the beginning of the Settlement Agreement, Citi expected the financing it provided under Menu Item 5 to have a meaningful community impact. Citi called this financing the Citi Affordable Housing Catalyst Program, or “Catalyst Program.” At the outset, Citi projected the Catalyst Program would:

- Create or preserve 8,000 rental housing units for low-to-moderate income (“LMI”) households, bringing housing more in line with the traditional measure of affordability (at or below 30 percent of income);
- Leverage public and private dollars to generate 10 times total capital deployment (\$2 billion total, assuming that Citi subordinate debt is 10 percent of the capital stock);
- Generate 9,800 construction jobs and 2,400 permanent jobs (assuming that economic activity and tax receipts are driven by the cost of the project, while jobs are driven by the number of units);
- Create \$140 million in local and state tax receipts during construction (with the same assumptions described in the previous bullet); and
- Create \$75 million per annum in local and sales tax receipts post-construction (again, with the same assumptions described in the previous bullet).

While many of these projections are not susceptible to precise testing at this point, there is no doubt that investments in affordable rental housing – including the provision of the much-needed gap financing – will result in jobs and tax receipts that would benefit local communities (in addition to the benefits that affordable rental housing will have in the long term). Of course, Citi benefits as well, as the projects help Citi meet its CRA obligations.

<sup>28</sup> See *Citi Tops AHF's Ranking of Top Affordable Housing Lenders*, BUSINESS WIRE (Mar. 13, 2014, 9:01 AM), <http://www.businesswire.com/news/home/20140313005062/en/Citi-Tops-AHF%E2%80%99s-Ranking-Top-Affordable-Housing>; Bendix Anderson, *AHF Announces Top 25 Affordable Housing Lenders*, AFFORDABLE HOUSING FINANCE (Mar. 10, 2016), [http://www.housingfinance.com/finance/ahf-announces-top-25-affordable-housing-lenders-of-2014\\_o](http://www.housingfinance.com/finance/ahf-announces-top-25-affordable-housing-lenders-of-2014_o).

<sup>29</sup> See Bendix Anderson, *supra* note 28; see also Christine Serlin, *AHF Announces Top 25 Affordable Housing Lenders of 2014*, AFFORDABLE HOUSING FINANCE (Mar. 2, 2015), [http://www.housingfinance.com/finance/ahf-announces-top-25-affordable-housing-lenders-of-2014\\_o](http://www.housingfinance.com/finance/ahf-announces-top-25-affordable-housing-lenders-of-2014_o).

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### B. Citi's Selection Process

Because providing gap financing was new for Citi, it had to determine how to select the developers and projects for such financing. Citi also had to design the structure and terms of the loans such that they produced losses eligible for credit under the Settlement Agreement. The Settlement Agreement provided Citi substantial discretion in how to implement its obligations. Menu Item 5 defines what types of projects are eligible to receive relief, see *supra* IV.B, but the Settlement Agreement does not prescribe the terms of the loans or how projects and developers were to be selected.

As an established lender in the affordable housing community, Citi has lending relationships with affordable housing developers across the country, including a pipeline of projects it was either funding as the senior lender or was in discussions to be the senior lender. Citi used these existing relationships to notify developers of the opportunity to apply for funds. In addition, Citi promoted its subordinate lending program by sending a promotional email to thousands of its contacts in the industry, announced the program on its website,<sup>30</sup> and spoke about the program at various industry events. Citi also alerted various governmental housing personnel about the availability of these funds.

Citi Community Capital employs loan originators, who solicit and negotiate senior construction and permanent financing for affordable housing projects. Citi's loan originators were involved in lending under this provision of the Settlement Agreement and solicited potential eligible projects through existing relationships. Citi also worked with local governmental officials to identify qualifying projects to support. Interested developers who contacted Citi were directed to speak with originators to communicate their interest and discuss potential eligibility. As a result, as discussed further in Part VI.D, there were many developers who received loans pursuant to Menu Item 5 with pre-existing relationships with Citi, but this was not universally the case.<sup>31</sup>

While Citi did not use a formal application process to identify interested applicants, it did require those developers it asked to apply to provide documentation explaining, among other internal Citi requirements, how the developer's proposed project fit the requirements of Menu Item 5. Citi Community Capital also created a Program Selection Committee to approve projects for the subordinate lending program. The Program Selection Committee reviewed applications regularly and used a ranking system to organize potential projects according to how many of the characteristics outlined in Annex 2 each project contained, how significant the need for the funds were, and the likelihood of the project going forward on a timely basis, among other attributes. When approved, Citi issued a Subordinate Loan Commitment Letter to the developer. As discussed below, *see infra* Part VI.F, these Letters were used by the Monitor to confirm eligibility under Menu Item 5.

### C. Input from Affordable Housing Advocates

At the request of advocates for affordable rental housing, the Monitor hosted a meeting between Citi personnel and advocates for affordable rental housing in early 2015. The advocates represented non-profit housing organizations across the country dedicated to providing affordable rental housing. The parties discussed the Settlement

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30 See *Citi's Affordable Housing Subordinate Loan Program*, Citi Community Capital (Aug. 19, 2014), [http://www.citibank.com/icg/sa/citicommunitycapital/docs/citi\\_affordable\\_housing\\_subordinate\\_loan\\_program\\_description.pdf](http://www.citibank.com/icg/sa/citicommunitycapital/docs/citi_affordable_housing_subordinate_loan_program_description.pdf).

31 Nine of the ten developers who answered this question in our online survey had previously received financing from Citi for other affordable housing projects. See, *infra*, Part VI.E for more information about the survey.

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Agreement requirements and the advocates discussed information relating to the urgent need for affordable rental housing across the country.

The advocates noted that while the Settlement Agreement does not require it, their strong desire was for Citi to commit to resubordinating its subordinate loan if a developer sought to refinance a project in the future. While Citi did not make such a commitment, Citi did represent that it intended to resubordinate these loans but maintained the ability to prevent a so-called windfall if a project became unexpectedly profitable. This issue is discussed in more detail below with respect to valuation of Citi's losses. *See, infra*, Part VI.D.

### D. Citi's Submissions for Credit

Citi has submitted subordinate loan commitments totaling \$189,995,520 that financed the new construction of 71 projects and the rehabilitation of 47 projects. Citi's Independent Review Group ("IRG") reviewed each Subordinate Loan Commitment Letter to confirm that it met the eligibility requirements of Menu Item 5.<sup>32</sup> Citi's submission sought \$744,974,158 in credit for these loans.

## VI. THE MONITOR'S REVIEW PROCESS

The two key components of the Monitor's review process were to verify the eligibility of the projects receiving the financing, and to determine the loss to be credited for future potential losses. The Monitor's team worked with Citi Community Capital personnel to establish testing procedures and agree upon a method of valuing Citi's losses.

### A. Overview

The Monitor's team has worked with Citi since the beginning of the monitorship to ensure that Citi's efforts comply with the Settlement Agreement. As part of this review for Menu Item 5, the Monitor and Citi came to an agreement on how to value the loss that Citi took on its subordinate lending commitments, established a testing plan, interviewed relevant Citi personnel about the process, interviewed developers and visited project sites, and surveyed the developers about their experience receiving funding through the provisions under the Settlement Agreement.

As discussed in greater detail below, the Monitor determines that Citi earned credit in the amount of \$744,974,158 for relief provided in 2015 and the first quarter of 2016 reflecting \$189,995,520 in subordinate loan commitments made to 118 eligible affordable rental housing projects. This lending meets the minimum requirements for Menu Item 5 of \$180 million in loss. Of the projects Citi financed, 67 are located in Small Area DDAs, which receive \$3.75 in credit for every \$1.00 of loss. The remaining 51 projects receive \$3.25 in credit for every \$1.00 of loss. Table 2 provides a breakdown of this credit.

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<sup>32</sup> For six projects, Citi did not provide a Subordinate Loan Commitment Letter. Instead, it submitted alternative documentation the Monitor determined to be sufficient to determine eligibility.

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**Table 2: Summary of Credit for Menu Item 5**

	Number of Projects	Loss Amount	Subordinate Loan Commitment	Credit Earned
SADDA-Eligible Projects	67	\$105,397,438	\$108,400,961	\$448,255,961  (\$3.75 in Credit/ \$1.00 of Loss)
Non-SADDA Projects	51	\$79,906,409	\$81,594,559	\$296,718,197  (\$3.25 in Credit/ \$1.00 of Loss)

## B. How to Value Citi's Losses

Citi was eligible to seek settlement credit for losses it took on loans to develop, rehabilitate, or preserve affordable rental multi-family housing. The Settlement Agreement instructs:

Loss is measured as the difference between the fair value and par value, as reflected on the books and records of Citi, on the origination date of the subordinated loan made to facilitate the construction, rehabilitation or preservation of affordable rental multi-family housing.<sup>33</sup>

Thus, the Settlement Agreement requires a determination of the fair value of the subordinate loan at the time Citi commits to lending. This valuation is difficult in light of the fact that private lenders had not previously provided these types of soft dollar loans and the government agencies that traditionally did this lending did not sell such loans on any secondary market.

A simplified example may help explain the difficulty of valuation. Gap financing, which is usually provided by a public entity, generally is not paid off at all or is not paid off for many years. Gap lenders, traditionally government entities, usually resubordinate as projects undergo ownership or other changes over the years. Unless unexpected sums are generated by rents (which are below market, unless additionally subsidized by Section 8 rent support, as some projects are), Citi should expect to receive nothing other than interest payments (if that), which may occur depending on the relevant payment waterfall negotiated by developers, Citi, and the other parties to each transaction. If Citi were to provide \$10 million in gap financing for a project, but never get paid principal over the course of the 40-55 year term, it would suffer a loss of \$10 million less any project interest payments it may have received.

The Settlement Agreement is, however, limited in time. The Monitorship will cease to exist long before it is certain that Citi will not be repaid in full. And whereas, with respect to most projects, Citi will never get its gap financing funds back, there may be a small number of projects in which Citi does receive some or all of its principal back. What projects those might be and how much or when Citi might recover are incredibly difficult to predict.

33 Annex 2 at 13 n.23.

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Citi could have elected to commit that it would not seek to recover its gap financing and would re-subordinate loans in all cases, but Citi did not do so. That does not mean, however, that Citi thought it would recover substantial sums. As noted above, Citi could recover nothing from the principal on its gap financing for 15 years – and likely much longer; moreover, there are some projects on which it appears certain that Citi will not recover, based on local housing policies. Citi's loss is thus a function of the low probability of recovery plus the time value of money lost by Citi.

After significant discussion, the Monitor and Citi came to agreement that the loans could be valued through the use of a discounted cash flow analysis with different discount rates to be applied based on the characteristics of the various projects. Specifically, each project was put into one of four categories based on likelihood of repayment for both principal and interest. In other words, each project was ranked on a scale of one to four as to how likely it would generate cash flows sufficient to make any monthly interest payment as well as the likelihood that it would repay the principal at the end of the subordinate loan's term.

For the interest calculation, Citi divided the funded projects into four categories based on each project's debt service coverage. Relying on the objective metric of how much debt to cash flow each project was expected to produce, those projects that were most highly leveraged were considered least likely to pay the simple interest that Citi's subordinate loans required.

The principal categorization was more subjective. Citi identified the likelihood that each project would ultimately pay back the principal of the loan based on factors such as whether the project's developer was a non-profit entity and the jurisdiction of the project. For example, in New York State, the relevant housing finance agencies' standard practice would be to require Citi to rollover its loan and thus Citi expected that no project in New York would repay its principal. But even for the projects by for-profit developers who had positive cash flows (such as those with substantial project-based Section 8 renters who provide, in net, market rate rents to the developers), the smaller discount rates led to low valuations based on the lengthy terms of these loans.

Citi's representations about its intention to resubordinate loans in almost all cases was critical to the discounted cash flow analysis and the reasonableness of Citi's calculation of losses. Developers often have the opportunity to refinance when LIHTC investors exit after 15 years of the project, and most, if not all, of the projects will need rehabilitation work financed before the terms of Citi's subordinate loans end. If Citi were to insist on repayment – rather than resubordinating as is common for gap financing – the amount of Citi's loss would be significantly less. The Monitor accepts Citi's representations that it does intend to resubordinate each of these loans absent extraordinary circumstances.

### C. Review of Closing Documents

The Settlement Agreement provides that Citi is eligible to receive credit when it commits to lend and that any such credit must be re-evaluated if Citi's loss "is substantially reversed due to circumstances such as cancellation of the project" during the Monitorship.<sup>34</sup> Citi agreed to provide the Monitor with the closing documents for each project so the Monitor could confirm that the terms of the loans were consistent with the Subordinate Loan Commitments, the terms of the Settlement Agreement, and the valuation methodology. At this time, the Monitor has reviewed closing documents for 90 of the 119 credited projects.<sup>35</sup> These documents are consistent with Citi's representations

<sup>34</sup> *Id.*

<sup>35</sup> Of the 90 projects reviewed, 30 have complete or substantially complete documentation. The Monitor's team will continue to review the closing documents of Citi's submitted projects to ensure compliance with the terms of the Settlement.

in the Subordinate Loan Commitments, the terms of the Settlement Agreement, and the agreed-upon valuation methodology.

The Monitor's team reviewed the documents Citi submitted, focusing in particular on the appraisals (where available), the Subordinate Loan Commitments and the key subordinate loan documents, which are the loan agreements, mortgages, and notes. The Monitor's team also reviewed the senior loan documents. To the extent that other documents were available—such as Regulatory Use Agreements, Sources and Uses Statements from the various borrower developers, various organizational documents of the borrowers (such as the borrowers' Partnership Agreements) and project budgets—the Monitor's team reviewed those documents as well.<sup>36</sup>

## D. Interviews with Developers

The Monitor's team interviewed approximately two dozen developers whose projects received subordinate loans under the Settlement Agreement in order to learn more about the process from their perspectives. The developers who were interviewed spanned the country, including developers with projects in Baltimore, Chicago, Milwaukee, New York City, Northern and Southern California, Seattle, Upstate New York, and Washington, D.C. The Monitor's team interviewed a cross-section of developers, including both for-profit and non-profit developers, and rehabilitation projects as well as new construction. Many of these interviews were conducted in person and allowed the team to tour properties that were both finished and under construction. The Monitor thanks those developers who took the time to explain their views on the process and results of Citi's subordinate lending, and appreciates the candor and insight that they provided.

In general, the developers interviewed confirmed the importance of Citi's subordinate loans to the success of the project and verified the accuracy of Citi's reporting with regard to its lending activities. The developers interviewed also provided valuable insights into improvements that could be made in any future settlements of this type. Below is a summary of the Monitor's key findings from these interviews.

**Resubordination.** The most consistent and wide-spread issue raised by developers, and affordable housing advocates as discussed above, has been Citi's decision not to guarantee to resubordinate its subordinate loan if a developer seeks to refinance the project, which can occur after year 15 when the tax credit partner exits. As noted above, *supra* Part VI.B, this commitment is not required by the terms of the Settlement Agreement, but Citi has represented to the Monitor that it expects to resubordinate the loans it made under Menu Item 5 except in narrow circumstances. During the interviews with developers, the Monitor additionally learned that for some projects, Citi has made such a commitment; however, for two specific projects, the Monitor was concerned that Citi suggested to the developers that Citi would call the subordinate loan if the developer did not refinance with Citi.

For this latter category of developers, the Monitor raised the issue directly with Citi, keeping confidential the developers who expressed concern. Citi responded that any such suggestion was contrary to policy and practice, and should not have occurred. After further inquiries, no other developers suggested similar conduct. The Monitor treats these allegations with the utmost seriousness. The Monitor believes that a future refusal by Citi to resubordinate because the senior loan was refinanced with another lender (rather than in the "extraordinary" circumstances of a wildly profitable affordable rental housing property) to be inconsistent with the valuation methodology Citi is using to calculate losses on its books (and the methodology used to evaluate compliance with this Agreement), which is premised on the discount rate applied for the long term of the subordinate loans. The Monitorship will be long gone in 15 years, but local housing authorities should be mindful of Citi's assertions.

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<sup>36</sup> Often, the information for items such as total project costs could be found only in the specific borrower's Partnership Agreement or in the Sources and Uses Statements.

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**Senior Financing.** Citi did not provide subordinate loans pursuant to Menu Item 5 to projects for which it did not also provide senior financing, with only one exception. This senior financing was most often a construction to permanent loan at market rates on a taxable or tax-exempt basis. On occasion Citi was also construction lender and mortgage banker/servicer for a Fannie Mae or Freddie Mac permanent loan; or construction lender and seller of the permanent loan to the New York City Retirement System. This type financing is typically profitable for Citi and, as noted above, is a regular part of their business.<sup>37</sup>

Although this was permitted by the Settlement Agreement, the Monitor investigated whether this senior financing was provided at above market terms, and any additional ancillary effects. More specifically, the Monitor sought to confirm that Citi did not attempt to recoup some of its losses on the subordinate loan by requiring above-market terms on its senior financing. This bundling could still be a net benefit to a developer while undercutting the real losses suffered by Citi. The Monitor found no evidence of this, either in the documentation of the transactions Citi provided or through developer interviews. The developers who were interviewed by the Monitor's team were unanimous that the terms of Citi's senior financing were consistent with market rates.

The developers, however, were also often unified in the opinion that Citi's ability to provide this subordinate loan was a "business development tool" that helped Citi get profitable business that it might not have otherwise received. Several developers explained that they may have worked with a different senior lender on Citi-funded projects, but that the availability of additional soft dollar funding in the form of the Settlement-required subordinate lending was a strong incentive to work with Citi. Nevertheless, when asked if they would prefer to have Citi be required to provide subordinate loans to projects for which it was not the senior lender, most developers agreed that the difficulties of having multiple lenders on a project would not be worth the benefit of excluding Citi or other lenders from bundling their senior and subordinate lending.

The Monitor recognizes that Citi's lending obligations under the Settlement Agreement benefited its senior affordable lending activity. But it is also important to note that if offering sub-market soft-dollar loans as a loss leader was a commercially-viable practice absent a mandate to do such lending, it is a practice that does not appear to have been tried by any lender not under an obligation to provide such loans. Ultimately, the Monitor is not convinced that such bundling practices are undesirable as a matter of public policy.

**Relationship with Citi.** While most developers interviewed had a previously existing relationship with Citi, there were a number of developers for whom the subordinate loan project was the first work they had done with Citi. Similarly, while most of the developers were experienced in affordable housing development, there were a few for which this was one of their first projects.

By and large, most developers had very positive things to say about their experiences with Citi and were pleased with the opportunity to receive the subordinate loans, particularly given the perceived decrease in availability of soft dollar loans after the housing crisis and the flexibility of the soft dollar loans under the Settlement Agreement. In particular, some developers noted that a Citi employee had been the one to first think of the fact that the project may qualify for a subordinate loan.

**Timing of Funding.** During the course of the interviews, the Monitor learned that not all of the subordinate loans were being funded at closing, but that many would not be funded until the projects completed construction and

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<sup>37</sup> The balance sheet profitability of Citi's senior lending to affordable rental housing is unknown, but there is a competitive marketplace for such lending with other major commercial lenders also seeking this business, as a profit-making endeavor and/or to satisfy the requirements of the Community Reinvestment Act credit. See generally Bendix Anderson, *supra* note 28.

converted to permanent financing. This harms the borrower if it must rely on more expensive forms of financing during construction and represents a benefit to Citi both by delaying the disbursement of the subordinate loan funds and increasing the odds that the developer must draw down further on the commercial rate construction loan from Citi. Because there is no requirement in the Settlement Agreement that dictates when these funds are to be provided, Citi was within its purview to make such a decision.

**Significance of Subordinate Funds.** A majority of developers reiterated that their respective projects would not have been able to close without Citi's subordinate lending. Some of the projects simply would have failed to close, while others would have become less affordable, or the developers would have been forced to make less ambitious renovations. The overwhelming majority of developers were positively impacted by the availability of funds under Menu Item 5 and reinforced how difficult it has become to find this type of lending that may be essential for some affordable developments. When asked whether the projects would have successfully closed without Citi's subordinate loans, the majority of developers answered in the negative.

## E. Survey of Developers

In addition to conducting interviews with developers, the Monitor also sent out an electronic survey to developers who had received financing pursuant to Menu Item 5. The survey asked eleven substantive questions that were largely informed by the prior interviews that had been conducted. These questions included:

1. Previous experience receiving financing from Citi for affordable housing development;
2. For-profit or non-profit status;
3. Whether the project is new construction or rehabilitation;
4. Whether the project had closed;
5. Amount of the subordinate loan;
6. Interest rate on that loan;
7. When the loan was to be disbursed;
8. Information about additional sources of financing;
9. Amount of Citi-provided senior financing, if any;
10. Total cost of the project; and
11. Whether the developer believed the project would have closed without the settlement funds.

Ten developers completed the survey and reported information that was consistent with what the Monitor's team had heard from developers who had been personally interviewed, as recounted above. Of the respondents, eight were unequivocal that the project would not have closed as affordable housing without this source of funding. In addition, some respondents recounted that Citi's commitment to making the project a success was instrumental to it moving forward. Representative comments included:

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- “This project would not have closed without the [Citi] Catalyst funds—it provided a much needed source to fill a funding gap to preserve the affordable housing development.”
- “This project would not have gone forward, and these . . . critical low income units would have ultimately been converted to market, without the funding provided by the ‘Catalyst’ funds from Citi.”
- “Absolutely not, there is a significant funding gap which could not be made up by any traditional, federal, state, county, local or private affordable housing funding sources.”

### F. Awarding Credit

Citi’s IRG and the Monitor tested each subordinate loan for compliance with the Settlement Agreement. The IRG reviewed the subordinate loans in accordance with a testing plan approved by the Monitor to confirm the eligibility and amount of credited relief under Menu Item 5. After the IRG certified its submission, the Monitor directed BDO Consulting (“BDO”) to test the loans against the same approved testing plan.<sup>38</sup> BDO confirmed the eligibility of each of the 118 projects and the total credit of \$744,974,158.

## VII. OBSERVATIONS REGARDING THE PROJECTS AND DEAL TERMS

### A. Types of Projects Funded

Citi funded Menu Item 5 affordable rental housing projects across the country. It funded projects by both for-profit and non-profit developers. Citi funded the rehabilitation of existing affordable housing—extending the life of the affordable units and improving the quality of housing for existing residents. It also funded new construction, including in some of the most difficult to develop areas of the country.

#### *Geographic Location/Distribution*

Citi funded affordable rental housing projects across the country. The Settlement Agreement required Citi to meet certain credit minimums in the five Settling States and received bonus credit for credit earned above those minimum. These conditions, along with the great need in many of these states, explains why 70 percent of the projects were in the five Settling States. Indeed, over half—67 of 118—of the projects are located in just two states, California and New York.

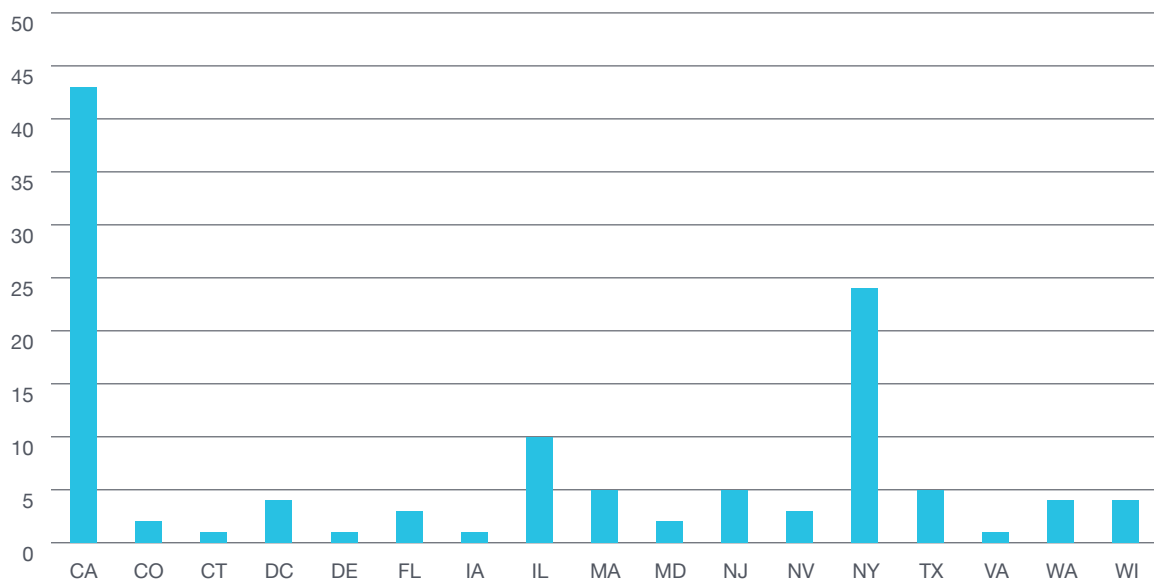
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<sup>38</sup> As described in previous reports, the Monitor retained BDO Consulting, a division of BDO USA, LLP, to assist in determining whether Citi has complied with the specific obligations set forth in Annex 2 of the Settlement Agreement.

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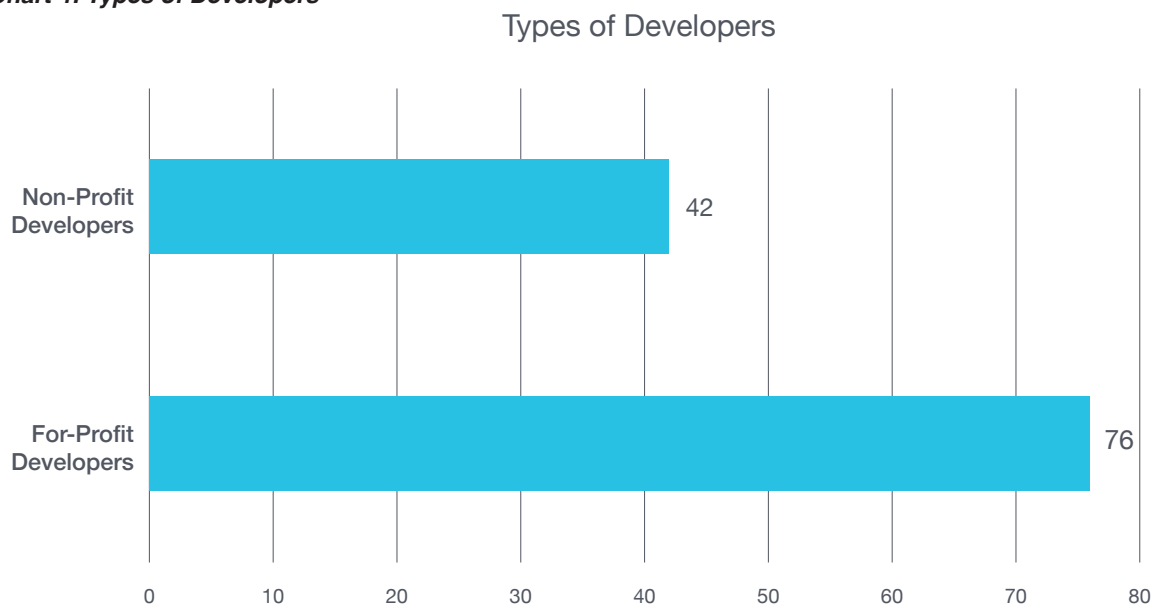
**Chart 3: Geographic Distribution of Projects**



**For-Profit and Non-Profit Developers**

Citi lent to both for-profit and non-profit developers to satisfy its Menu Item 5 obligations. The chart below breaks down the number of for-profit and non-profit developers receiving loans.

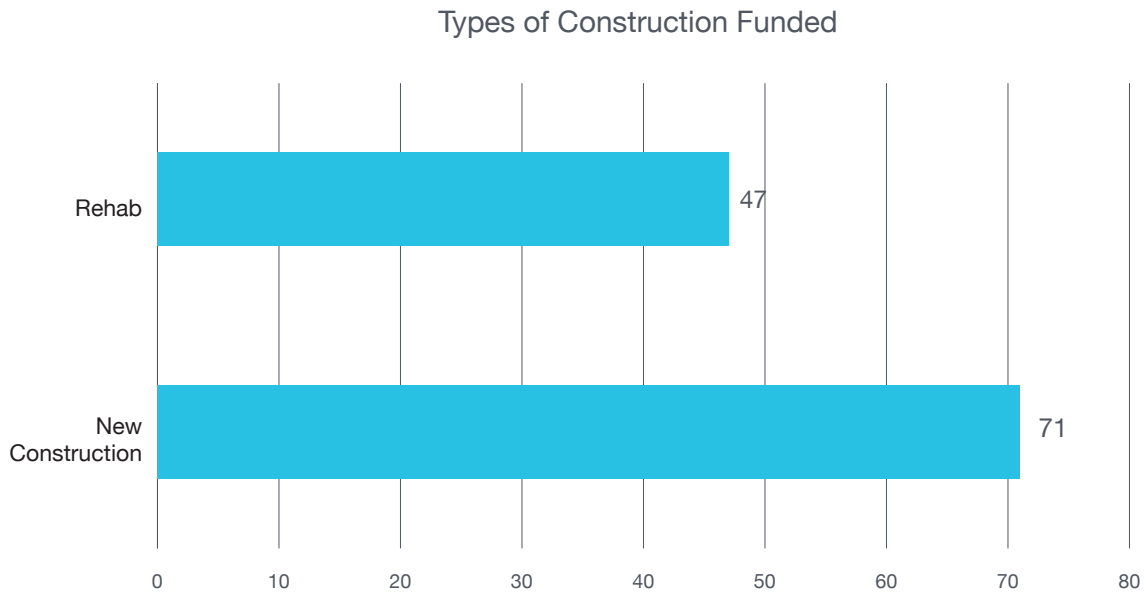
**Chart 4: Types of Developers**



## *New Construction and Rehab*

Citi provided subordinate lending for both new construction of affordable housing and rehabilitation of existing housing. Chart 5 below shows the distribution of relief between new construction and rehabilitation projects.

**Chart 5: Types of Developments**



## *Number of Units and Affordability*

Citi financed the construction or rehabilitation of 12,638 units of affordable housing. Citi lent \$15,034 per affordable unit and received \$58,947 in credit per affordable unit, well below the maximum allowable (\$100,000) under the Settlement Agreement.

As required by the Settlement Agreement, Citi had to fund at least half of these units in CNFH areas. Citi financed 6,497 affordable units in CNFH areas, which was 51.4% of the total number of affordable units. For each year Citi submitted Menu Item 5 credit, 40% of the CNFH units must have 2 or more bedrooms and 10% of the units must have 3 or more bedrooms in order to meet the substantial need for affordable family housing. As Table 3 lays out below, Citi has met this requirement.<sup>39</sup>

<sup>39</sup> Citi determined an overall percentage of 29% for the three-bedroom test versus the 27% determined by the Monitor as indicated in the Table. The difference has no impact on the validation of Citi's commitment, as both percentages exceed the 10% minimum required by the Settlement Agreement.

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**Table 3: Critical Need Family Units Built Per Year**

**Results of 2+ BR and 3+ BR Percentage Tests by Year of Origination**

*Minimum Required Percentages: 40% for 2+ BR, 10% for 3+ BR*

Year of Development Origination	# Developments	# CNFH Developments	2+ BR %	3+ BR %
2014	65	37	73%	30%
2015	48	25	79%	25%
2016 (through March 31, 2016)	5	3	78%	22%
Overall	118	65	76%	27%

Indicated percentages represent the number of affordable units in CNFH with 2 or more bedrooms and 3 or more bedrooms, respectively.

*Loan Amounts*

Citi provided \$189,995,520 in subordinate loans across 118 projects, for an average loan of \$1,610,132 per project. The largest subordinate loan was \$7,087,394 and the smallest was \$159,000. The median loan amount was \$1,225,000, the 25th percentile loan amount was \$757,500, and the 75th percentile was \$2,000,000.

## B. Deal Terms

The following captures the standard terms that Citi used for its subordinate loan financing pursuant to Menu Item 5 of the Settlement Agreement.

*Interest & Principal Payments*

The principal of these loans is not due until the end of the life of the loan; the only regular payments are for interest, if funds are available to make interest payments. The typical structure of Citi's Subordinate Loans under the program requires the developer borrower to make payments to Citi based upon accrued and unpaid interest with some percentage of residual receipts. Residual receipts are the cash flows after paying operating expenses and first deed of trust debt service. A typical Citi subordinate loan would receive payment from 75 percent of residual receipts, but this varied from project to project depending on a variety of factors including the presence of other subordinate financing. On one project, Citi's subordinate loan only had claim to 8 percent of residual receipts while a few other projects used 80 percent.

*Loan Terms and Length of Regulatory Use Agreements*

The subordinate loans have much longer terms than either the typical senior loans or the regulatory use agreements. The senior loans commonly have 30-year maturities, compared to 40-55 year maturities for the subordinate debt. Moreover, the majority of the applicable projects had regulatory use agreements or low-income housing commitment terms that expire prior to the subordinate loans' maturity dates.

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### *Discretionary Rights Regarding Transfer*

The subordinate loan documents, including the subordinate mortgages, generally contained typical transfer rights of the borrowers and permitted early prepayment rights. These terms are standard market provisions, but in the context of the Settlement Agreement provide Citi some amount of leverage over future transactions. In nearly all of the Subordinate Mortgages that the Monitor reviewed, Citi has the right to withhold its consent in the event that the borrower desires to engage in: (i) a transfer of the property; (ii) a transfer of the entities or persons who make up the borrower; or (iii) a refinancing of the debt during the term of the Subordinate Loan. If Citi elected to do so, it could respond to such request for consent by requiring that the borrower repay the subordinate loan in full before it reaches its maturity.

### *Acceleration*

It is customary in loan transactions for a lender to have a right to accelerate all of the then-outstanding debt in the event that the borrower defaults under the loan. The Citi subordinate loan documents include this debt acceleration remedy following a borrower default. This authority also serves as a possible avenue for Citi to get repaid at a date that could occur much earlier than the maturity date for the subordinate debt.

## C. Variations Across Projects

As described above, the deal terms for Citi's subordinate financing were fairly consistent across projects. However, the Monitor has identified several material variations across projects.

**Timing of Funding.** As noted above in Part VI.D, one significant variation was the timing of the subordinate loan funding. For some projects, the subordinate loan funding was available at closing, which allowed those developers access to a low cost source of funding during construction. For other projects, Citi did not fund the subordinate loan until construction was completed and the project converted to its permanent funding source. Citi estimated that approximately two-thirds of the total projects funded fell into this latter category, which required developers to rely on the more expensive, market rate senior loans until construction was complete.<sup>40</sup> The Monitor notes the anomaly in the Settlement Agreement that the timing of the disbursement of funding was not addressed, but because the financing was credited when the Subordinate Loan Commitment Letter was executed, Citi nonetheless received credit—and often, early incentive credit—based on the time that Letter was executed and delivered to the borrower.<sup>41</sup>

**Commitment to Resubordinate.** As noted above in Parts VI.B and VI.D, Citi's discretion to resubordinate its subordinate loan if a developer seeks to refinance the project in the future affects both whether such refinancing is possible and whether Citi's credited loss on the subordinate loan has been accurately calculated. As discussed, Citi did not universally make any such commitment, but Citi did agree in its closing documents to resubordinate its subordinate loans for a number of developers. The Monitor understands from Citi that these agreements were largely driven by requirements from state and local governments that also were providing soft dollar loans to those projects. Moreover, Citi has represented that it intends to resubordinate absent extraordinary circumstances and does not have a policy or practice of refusing to resubordinate in the event of an effort to refinance the senior debt with another lender.

40 Of the ten developers who responded to the Monitor's survey question about timing of the subordinate loan's disbursement, developers reported that five loans were disbursed at closing, one during construction, and four at conversion.

41 Annex 2 at 13 n.23.

**Interest Rates on Subordinate Loans.** By and large, Citi provided standard terms across developers, including a one-percent interest rate. In at least one instance, however, Citi provided a zero-percent interest subordinate loan to a developer.

## VIII. REPRESENTATIVE PROJECTS

The following describe a few projects that used the Citi subordinate loan program under the Settlement Agreement. In each instance, the Monitor's team spoke with the developers and toured the project site. These are not meant to be exhaustive examples, but rather provide a window into the effect of the funding.

### **Layton Square Apartments, Cudahy, Wisconsin**

The Layton Square Apartments development is in Cudahy, a suburb of Milwaukee.<sup>42</sup> The 57-unit, mixed-used development is a key element of the City's economic redevelopment plan. Bear Development, a for-profit developer, received a \$741,000 subordinate loan from Citi in addition to a \$7.2 million senior construction-to-permanent loan, and LIHTC financing. The project will create 50 affordable units with 14 affordable one-bedroom units at 30% AMI.

Members of the Monitor's team met with the developer and toured the construction site. At the developer's suggestion, members of the Monitor's team also spoke with the Mayor of Cudahy, John Hohenfeld, who explained that the Layton Square Apartments is the culmination of a 20-year master development plan. The City had spent over \$20 million in infrastructure developments in its downtown area in order to encourage the development of denser, mixed-use development. The City donated the land for the project and has an additional subordinate loan financing the project in addition to Citi's subordinate loan.

### **MHANY Scatter Site, Brooklyn, New York**

The Mutual Housing Association of New York ("MHANY") is a non-profit housing organization that develops and manages affordable housing sites as well as provides housing counseling and other community development efforts. Citi provided a \$3.8 million subordinate loan to rehabilitate 255 MHANY-managed affordable units across New York City. These units are currently over thirty years old, and many residents have lived in these units for a very long time.

MHANY's staff estimates that the rehab project will be completed in 2018. Each unit will receive over \$100,000 in rehabilitation, with the construction happening in phases while the tenants continue to live in their units. These phases include a round of bathroom rehabilitation (completed), kitchens (in progress), and a phase that includes windows and heating. The Monitor's team saw examples of the rehabilitated kitchens and bathrooms, and the residents seemed very happy with the results.

Although the staff at MHANY believed that this project could have gone forward without the settlement funding the project's gap financing, they note that the project would have negatively impacted the affordability they could offer residents. Other projects have higher AMI than this project, and this project would have (or could have) looked different without this financing because there might have been higher rents.

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42 See LAYTON SQUARE, <http://www.laytonsquareapts.com/> (last visited Dec. 14, 2016).

## **Sterling Park Apartments, Chicago, Illinois**

Mercy Housing, a national non-profit developer and manager of affordable housing, received a \$1 million subordinate loan for the Sterling Park Apartments. This project, in North Lawndale, is redeveloping an abandoned industrial building—part of the original Sears, Roebuck and Company complex—into 181 units of affordable housing, including 79 one-bedroom, 52 two-bedroom, 40 three-bedroom, and 10 four-bedroom affordable units. Sterling Park Apartments, which may cost approximately \$56 million in total development costs, is one of the largest projects Citi funded.

The Monitor's team toured the construction site and met with the development team at Mercy Housing. This project utilized many different sources of gap financing, including an AHP grant from the Federal Home Loan Bank of Chicago, subordinate debt from the Chicago Housing Authority as well as Citi's subordinate loan, and a state tax credit for energy conservation and a federal credit for historic preservation. As reported to the Monitor by the developer, Citi was already the lead underwriter for the 4 percent tax exempt bond deal under LIHTC and offered the \$1 million subordinate financing when an unexpected gap in the financing occurred.

## **IX. PRELIMINARY OBSERVATIONS ABOUT THE EFFECTS OF THE RELIEF**

The Monitor makes these preliminary observations of the relief provided by Menu Item 5 of the Settlement Agreement.

*What was the estimated impact of Citi's relief?*

Citi's Settlement Agreement was the first to include an obligation to lend to affordable rental housing developments. The Monitor believes this to be an important obligation and one that provided substantial benefits to communities. In total, Citi helped finance the construction or rehabilitation of 12,638 units of affordable housing, receiving about \$58,947 in Settlement credit for each unit. According to the required regulatory use agreements, these units will generally remain affordable for at least 30 years, helping many thousands of low- and moderate-income renters to afford housing.

At the beginning of the Monitorship, Citi reported to the Monitor that its goal was to create or preserve 8,000 rental housing units. By this metric, Citi far exceeded its goal.

*What was the impact of the conditions imposed by the Settlement Agreement, including the requirement to fund projects in Small-Area DDAs?*

As described above, the government emphasized, through a set of minimum requirements in the Settlement Agreement, projects in Small-Area DDAs. Although there are specific criteria to qualify for Small-Area DDA status, at bottom, Small-Area DDAs tend to be areas that are better-off economically than many places where affordable housing is built and, therefore, because market rents are higher, are difficult places to locate profitable or break-even affordable housing projects (even with government subsidies of various kinds).

As a result of this focus, some of the projects funded by Citi are in places that are relatively high-rent – for example, Citi is getting credit for 3-bedroom affordable housing units in San Francisco and particular neighborhoods in New York City, which are otherwise expensive places to live. This reflects the government's emphasis on incentivizing

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projects in places where affordable rental housing is exceptionally rare and, as reflected by the housing market, is an especially desirable place to live. Had the government chosen not to emphasize Small-Area DDAs, the distribution of projects under the Settlement Agreement likely would have been different, which would not have advanced the government's policy goals in the same manner.

*Did the "new" type of relief offered by the Settlement Agreement—incentives for investment in affordable rental housing—create new rental housing or merely displace dollars that would otherwise have been spent on such housing?*

As structured, Citi would get credit for providing subordinate debt to for-profit and not-for-profit developers to close the gap in funding common in such affordable rental housing projects. Most often, a commercial bank will provide the senior debt, but it is left to localities to provide the gap financing, which is often never repaid or only repaid decades after the project is commenced.

Determining the impact of the rental housing provisions requires an understanding of what the world would have looked like absent these provisions—would Citi or some other lender have provided the gap funding anyway? Did state and local governments simply divert funds that they would have spent on affordable rental projects to other projects (unrelated to affordable housing), thereby resulting in no increase in affordable rental projects? While these questions cannot be definitely answered, the Monitor's analysis and interviews shed some light on this question.

First, it is worth noting that, prior to the Settlement Agreement, Citi had an active practice in providing senior debt to affordable rental housing projects, but it did not provide any subordinate debt (neither Goldman Sachs nor Bank of America previously provided subordinate debt either). Thus, the practical effect of the settlements was to provide new sources of funds for projects that had not existed before. Second, the Monitor's interviews with developers strongly support the idea that many projects got off the ground because of funds unlocked under the Settlement Agreement.

## X. CONCLUSION

Citi earned \$744,974,158 in consumer relief credit for its affordable rental housing lending in 2015 and the first quarter of 2016.

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## APPENDIX TO MONITOR'S REPORT DATA FOR EACH PROJECT

Project Title	State	Non-Profit or For-Profit Developer	New Construction or Rehab	Number of Units	Percentage of Affordable Units	SADDA	Closing Date	Subordinate Loan Amount
3475 Third Avenue, a/k/a La Casa del Mundo	New York	For-Profit Developer	New Construction	102 (74.5% 2 bdr +, 17.6% 3 bdr +)	100%	N	6/30/15	\$1,530,000
501 North Lamb Apartments	Nevada	Not-For-Profit Developer	New Construction	168 (100% 2 bdr +, 64.3% 3 bdr +)	100%	N	12/18/15	\$3,400,000
6800 Mission Apartments	California	Not-For-Profit Developer	New Construction	52 (61.5% 2 bdr +, 30.8% 3 bdr +)	98%	N	4/23/15	\$780,000
1434 Undercliff Avenue	New York	Not-For-Profit Developer	New Construction	75 (13.3% 2bdr +, 0% 3 bdr +)	99%	N	6/29/16	\$1,000,000
779 East Evelyn Avenue	California	For-Profit Developer	New Construction	116 (51.7% 2 bdr +, 12.9% 3 bdr +)	99%	Y	8/5/16	\$2,900,000
Academy Square Apartments	Illinois	For-Profit Developer	Rehab of Existing Units	200 (50% 2 bdr +, 8.0% 3 bdr +)	100%	Y	1/29/15	\$2,885,000
ADC Year 15	New York	For-Profit Developer	Rehab of Existing Units	358 (53.4% 2 bdr +, 8.9% 3 bdr +)	98%	N	6/25/15	\$5,355,000
Appleton Heights Apartments and Glendale Heights Apartments	Wisconsin	For-Profit Developer	New Construction	36 (100% 2 bdr +, 100% 3 bdr +)	83%	N	4/29/15	\$550,000
Artisan at Judson	Texas	For-Profit Developer	New Construction	126 (100% 2 bdr +, 52.4% 3 bdr +)	100%	Y	5/11/16	\$1,500,000
Atlantic Gardens Apartments	Washington D.C.	For-Profit Developer	Rehab of Existing Units	108 (95.4% 2 bdr +, 9.3% 3 bdr +)	100%	N	10/19/15	\$1,750,000
Atlantic Terrace Apartments	Washington D.C.	For-Profit Developer	Rehab of Existing Units	195 (87.2% 2 bdr +, 24.6% 3 bdr +)	100%	N	10/19/15	\$2,750,000

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Project Title	State	Non-Profit or For-Profit Developer	New Construction or Rehab	Number of Units	Percentage of Affordable Units	SADDA	Closing Date	Subordinate Loan Amount
August Petrillo Apartments	New York	Not-For-Profit Developer	Rehab of Existing Units	131 (0% 2 bdr +, 0% 3 bdr +)	99%	N	12/10/15	\$3,950,000
Avenida Serra Workforce Housing Project	California	Not-For-Profit Developer	New Construction	19 (0% 2 bdr +, 0% 3 bdr +)	95%	Y	11/25/15	\$190,000
B3, a/k/a Building 3 at Pacific Park	New York	For-Profit Developer	New Construction	303 (35.0% 2 bdr +, 5.3% 3 bdr +)	35%	Y	6/17/15	\$2,000,000
Bell Valley Commons, a/k/a The Grove	Illinois	For-Profit Developer	New Construction	49 (100% 2 bdr +, 61.2% 3 bdr +)	100%	Y	6/28/16	\$1,400,000
Beverly Park Senior	California	For-Profit Developer	Rehab of Existing Units	49 (0% 2 bdr +, 0% 3 bdr +)	100%	N	11/16/15	\$490,000
Blue Heron Trail	New York	For-Profit Developer	New Construction	82 (56.1% 2 bdr +, 4.9% 3 bdr +)	74%	N	2/15/17	\$840,000
Booker T. Washington Apartments, a/k/a John Burton Foundation Housing Complex	California	For-Profit and Not-For-Profit Developer	New Construction	50 (4% 2 bdr +, 0% 3 bdr +)	96%	N	9/15/15	\$1,000,000
Boulder Pines II	Las Vegas	Not-For-Profit Developer	New Construction	168 (100% 2br+, 71.4% 3bdr+)	94%	N	5/26/16	\$2,772,000
Bowen Flats	Washington D.C.	For-Profit Developer	New Construction	41 (12.2% 2 bdr +, 4.9% 3 bdr +)	100%	N	12/21/15	\$400,000 (purchase money)
Briar Crest and Rose Crest	California	Not-For-Profit Developer	Rehab of Existing Units	41 (46.3% 2 bdr +, 4.9% 3 bdr +)	100%	Y	3/10/16	\$410,000
Bridgeton Villas	New Jersey	For-Profit Developer	Rehab of Existing Units	155 (81.9% 2 bdr +, 23.2% 3 bdr +)	100%	Y	12/21/16	\$3,100,000

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Project Title	State	Non-Profit or For-Profit Developer	New Construction or Rehab	Number of Units	Percentage of Affordable Units	SADDA	Closing Date	Subordinate Loan Amount
Brunswick Estates Project	New Jersey	For-Profit Developer	Rehab of Existing Units	131 (100% 2 bdr +, 68.7% 3 bdr +)	69%	Y	12/17/15	\$3,620,000
Catalina Crossing	Virginia	For-Profit Developer	New Construction	124 (79% 2 bdr +, 29% 3 bdr +)	100%	N	6/2/15	\$930,000
Chappaqua Crossing	New York	For-Profit Developer	Rehab of Existing Units	64 (53.1% 2 bdr +, 7.8% 3 bdr +)	44%	Y	8/4/16	\$320,000
Clybourn and Division, a/k/a Clybourn 1200	Illinois	For-Profit Developer	New Construction	84 (57.1% 2 bdr +, 1.2% 3 bdr +)	62%	Y	12/22/15	\$1,476,000
Copiague Commons	New York	For-Profit Developer	New Construction	90 (40% 2 bdr +, 0% 3 bdr +)	100%	N	12/17/15	\$1,800,000
Copper at Puyallup a/k/a Copper Valley	Washington	For-Profit Developer	New Construction	204 (82.4% 2 bdr +, 26.5% 3 bdr +)	100%	Y	12/16/16	\$4,000,000
Copper at Sierra Ridge, a/k/a Copper Steppe	Colorado	For-Profit Developer	New Construction	264 (78.8% 2 bdr +, 22.7% 3 bdr +)	100%	Y	9/23/15	\$2,500,000
Copper Range	Colorado	For-Profit Developer	New Construction	240 (78.3% 2 bdr +, 22.5% 3 bdr +)	100%	Y	10/17/16	\$1,600,000
Copper Square	California	For-Profit Developer	New Construction	204 (80.4% 2 bdr +, 9.8% 3 bdr +)	100%	Y	2/5/2016	\$2,040,000
Corona Ranch – Washington Creek Apartments	California	Not-For-Profit Developer	Rehab of Existing Units	106 (100% 2 bdr +, 54% 3 bdr +)	98%	N	8/15/16	\$159,000
Coronado Terrace (Eden)	California	Not-For-Profit Developer	Rehab of Existing Units	312 (100% 2 bdr +, 14.1% 3 bdr +)	100%	Y	6/3/15	\$1,560,000
Cottonwood Place Phase I	California	For-Profit Developer	Rehab of Existing Units	109 (100% 2 bdr +, 100% 3 bdr +)	99%	Y	11/30/15	\$1,635,000

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Project Title	State	Non-Profit or For-Profit Developer	New Construction or Rehab	Number of Units	Percentage of Affordable Units	SADDA	Closing Date	Subordinate Loan Amount
Deanwood Hills	Washington D.C.	For-Profit Developer	New Construction	150 (51.3% 2 bdr +, 16% 3 bdr +)	100%	N	10/27/16	\$1,500,000
Duetta Apartment Homes, f/k/a Millenia Family Apartments	California	For-Profit Developer	New Construction	86 (69.8% 2 bdr +, 30.2% 3 bdr +)	99%	Y	3/23/16	Loan Amount: \$860,000
East 172	New York	Not-For-Profit Developer	New Construction	126 (45.2% 2 bdr +, 0% 3 bdr +)	99%	N	9/22/16	\$2,000,000
Egg Harbor Township Family Apartments	New Jersey	For-Profit Developer	New Construction	76 (88.2% 2 bdr +, 31.6% 3 bdr +)	99%	Y	12/30/15	\$1,140,000
Evergreen Terrace	Illinois	For-Profit Developer	Rehab of Existing Units	84 (91.7% 2 bdr +, 50% 3 bdr +)	100%	Y	10/16/15	\$840,000
Fairview Homes Apartments	New Jersey	For-Profit Developer	Rehab of Existing Units	136 (100% 2 bdr +, 66.9% 3 bdr +)	99%	N	5/7/15	\$1,500,000
Fox Crossing II	Wisconsin	For-Profit Developer	New Construction	32 (53.1% 2 bdr +, 18.8% 3 bdr +)	91%	N	2/8/16	\$416,000
Fullerton (Orangethorpe)	California	Not-For-Profit Developer	New Construction	36 (50% 2 bdr +, 16.7% 3 bdr +)	97%	Y	11/30/16	\$720,000
Garden Place Apartments	Illinois	For-Profit Developer	New Construction	60 (73.3% 2 bdr +, 26.7% 3 bdr +)	100%	N	2/29/16	\$1,200,000
Harris Park	New York	For-Profit Developer	Rehab of Existing Units	114 (57.9% 2 bdr +, 12.3% 3 bdr +)	90%	N	12/19/14	\$1,710,000
Hemlock Ridge Preservation Apartments	New York	For-Profit Developer	New Construction	60 (60% 2 bdr +, 28.3% 3 bdr +)	98%	Y	3/31/15	\$600,000

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Project Title	State	Non-Profit or For-Profit Developer	New Construction or Rehab	Number of Units	Percentage of Affordable Units	SADDA	Closing Date	Subordinate Loan Amount
Heritage Homes III	New York	For-Profit Developer	New Construction	41 (100% 2 bdr +, 46.3% 3 bdr +)	100%	Y	3/29/16	\$820,000
Historic Pastures Mansions	New York	Not-For-Profit Developer	Rehab of Existing Units	246 (58.5% 2 bdr +, 13.8% 3 bdr +)	93%	N	12/30/14	\$2,200,000
Hunts Point Peninsula	New York	For-Profit Developer	Rehab of Existing Units	165 (78.8% 2 bdr +, 15.8% 3 bdr +)	99%	N	6/25/15	\$2,475,000
Jeffery Towers	Illinois	Not-For-Profit Developer	Rehab of Existing Units	135 (0% 2 bdr +, 0% 3 bdr +)	100%	N	5/15/15	\$2,180,000
Layton Square Apartments	Wisconsin	For-Profit Developer	New Construction	57 (63.2% 2 bdr +, 15.8% 3 bdr +)	88%	N	12/30/15	\$741,000
Liberty Pass Selma Apartments	Texas	For-Profit Developer	New Construction	104 (88.5% 2 bdr +, 28.8% 3 bdr +)	92%	Y	4/1/15	\$1,000,000
Loring Place North	New York	Not-For-Profit Developer	New Construction	66 (7.6% 2 bdr +, 0.0% 3 bdr +)	98%	N	6/19/15	\$1,000,000
Madera Vista 3	California	Not-For-Profit Developer	New Construction	30 (90% 2 bdr +, 43.3% 3 bdr +)	97%	Y	12/20/16	\$900,000
Madrone Village	California	Not-For-Profit Developer	Rehab of Existing Units	23 (100% 2 bdr +, 30.4% 3 bdr +)	96%	Y	9/16/15	\$575,000
Market Street Village	Delaware	For-Profit Developer	Rehab of Existing Units	76 (0% 2 bdr +, 0% 3 bdr +)	82%	N	12/23/14	\$531,559
Mesa Verde, f/k/a Mission Gorge Apartments	California	For-Profit Developer	New Construction	90 (70% 2 bdr +, 30% 3 bdr +)	99%	Y	4/6/16	\$1,800,000
Metro Green III	Connecticut	For-Profit Developer	New Construction	131 (23.7% 2 bdr +, 0% 3 bdr +)	56%	Y	12/1/15	\$2,500,000

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Project Title	State	Non-Profit or For-Profit Developer	New Construction or Rehab	Number of Units	Percentage of Affordable Units	SADDA	Closing Date	Subordinate Loan Amount
MHANY Portfolio	New York	Not-For-Profit Developer	Rehab of Existing Units	255 (85.5% 2 bdr +, 57.3% 3 bdr +)	100%	N	10/27/15	\$3,810,000
Mission Bay Block 7	California	For-Profit Developer	New Construction	198 (64.6% 2 bdr +, 0% 3 bdr +)	100%	N	5/21/15	\$3,000,000
Mission Cove	California	Not-For-Profit Developer	New Construction	90 (70% 2 bdr +, 34.4% 3 bdr +)	99%	Y	3/18/16	\$1,349,960
Montgomery Family Phase I	New Jersey	For-Profit Developer	New Construction	126 (82.5% 2 bdr +, 23.8% 3 bdr +)	92%	Y	11/21/16	\$1,890,000
Mosaic Gardens at Anderson	California	Not-For-Profit Developer	New Construction	45 (82.2% 2 bdr +, 46.7% 3 bdr +)	98%	Y	1/11/17	\$1,125,000
Mosaic Gardens at Monterey Park	California	Not-For-Profit Developer	Rehab of Existing Units	31 (87.1% 2 bdr +, 32.3% 3 bdr +)	97%	Y	2/26/15	\$620,000
Mosaic Gardens at Pomona	California	Not-For-Profit Developer	New Construction	46 (67.4% 2 bdr +, 32.6% 3 bdr +)	98%	Y	3/17/16	\$690,000
Mosaic Gardens at Willowbrook	California	Not-For-Profit Developer	New Construction	61 (37.7% 2 bdr +, 21.3% 3 bdr +)	98%	N	11/24/15	\$1,525,000
Nelson Mandela, Apartments f/k/a Franklin Apartments	Illinois	Not-For-Profit Developer	New Construction	72 (79.2% 2 bdr +, 29.2% 3 bdr +)	100%	N	1/29/16	\$1,440,000
Newtowne Court	Massachusetts	Not-For-Profit Developer	Rehab of Existing Units	268 (81.3% 2 bdr +, 34% 3 bdr +)	100%	Y	4/1/15	\$7,087,394
Oakcrest Terrace, f/k/a Savi Ranch I	California	Not-For-Profit Developer	New Construction	69 (78.3% 2 bdr +, 30.4% 3 bdr +)	99%	Y	4/07/15	\$550,000

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Project Title	State	Non-Profit or For-Profit Developer	New Construction or Rehab	Number of Units	Percentage of Affordable Units	SADDA	Closing Date	Subordinate Loan Amount
Oakdale Apartments	California	For-Profit Developer	Rehab of Existing Units	42 (61.9% 2 bdr +, 4.8% 3 bdr +)	98%	Y	6/10/16	\$300,000
One Flushing	New York	For-Profit Developer	New Construction	168 (49.1% 2 bdr +, 15.2% 3 bdr +)	31%	Y	12/28/16	\$2,220,000
Parkview Apartments	Illinois	For-Profit and Not-For-Profit Developer	New Construction	45 (64.4% 2 bdr +, 11.1% 3 bdr +)	91%	Y	7/18/16	\$750,000
Parkway Apartments	Illinois	Not-For-Profit Developer	Rehab of Existing Units	90 (0% 2 bdr +, 0% 3 bdr +)	100%	Y	12/22/15	\$1,080,000
Pitkin-Berriman Housing Development	New York	Not-For-Profit Developer	New Construction	60 (55% 2 bdr +, 6.7% 3 bdr +)	98%	N	10/30/15	\$1,200,000
Poets II	New York	For-Profit Developer	New Construction	48 (66.7% 2 bdr +, 16.7% 3 bdr +)	100%	N	9/30/16	\$840,000
Pond View Homes	New York	For-Profit Developer	Rehab of Existing Units	52 (80.8% 2 bdr +, 53.8% 3 bdr +)	100%	Y	8/13/15	\$520,000
Portola Springs, a/k/a Anton Portola	California	For-Profit Developer	New Construction	256 (41.8% 2 bdr +, 0% 3 bdr +)	100%	Y	3/31/15	\$3,840,000
Potrero Hill Phase I	California	Not-For-Profit Developer	New Construction	70 (87.1% 2 bdr +, 12.9% 3 bdr +)	99%	Y	12/20/16	\$1,200,000
PPD Washington Portfolio, a/k/a Marion Court	Washington	For-Profit Developer	Rehab of Existing Units	35 (100% 2 bdr +, 11.4% 3 bdr +)	97%	N	7/29/15	\$800,000
Prospect Plaza Site III	New York	Not-For-Profit Developer	New Construction	135 (48.9% 2 bdr +, 15.6% 3 bdr +)	99%	N	3/23/16	\$1,220,000
Putnam Gardens	Massachusetts	Not-For-Profit Developer	Rehab of Existing Units	122 (87.7% 2 bdr +, 33.6% 3 bdr +)	100%	Y	12/31/14	\$3,226,350

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Project Title	State	Non-Profit or For-Profit Developer	New Construction or Rehab	Number of Units	Percentage of Affordable Units	SADDA	Closing Date	Subordinate Loan Amount
Juniper at the Preserve f/k/a/ Quarry Creek	California	For-Profit Developer	New Construction	64 (81.3% 2 bdr +, 31.3% 3 bdr +)	99%	Y	11/2/16	\$440,000
RAD Phase I, a/k/a Woodrow Wilson Court	Massachusetts	Not-For-Profit Developer	Rehab of Existing Units	68 (52.9% 2 bdr +, 5.9% 3 bdr +)	100%	Y	4/1/15	\$1,798,294
Rancho California	California	For-Profit Developer	Rehab of Existing Units	55 (100% 2 bdr +, 60% 3 bdr +)	99%	Y	3/4/16	\$1,650,000
Regency Lancaster (aka Avenida Crossing)	California	For-Profit Developer	Rehab of Existing Units	77 (100 % 2 bdr +, 88.3 % 3 bdr +)	99%	Y	6/11/15	\$1,540,000
Residences at Crystal Lake	Florida	For-Profit Developer	New Construction	92 (100% 2 bdr +, 48.9% 3 bdr +)	100%	Y	10/7/15	\$2,000,000
River View at Calallen	Texas	For-Profit Developer	New Construction	96 (87.5% 2 bdr +, 37.5% 3 bdr +)	100%	N	7/22/16	\$500,000
Riverbrook Village	Texas	For-Profit Developer	New Construction	110 (53.6% 2 bdr +, 0% 3 bdr +)	88%	N	3/3/16	\$1,100,000
RMV Plan Area 2 Family	California	For-Profit Developer	New Construction	108 (80.6% 2 bdr +, 29.6% 3 bdr +)	99%	Y	9/6/16	\$540,000
Roosevelt School	Wisconsin	For-Profit Developer	Rehab of Existing Units	33 (51.5% 2 bdr +, 0.0% 3 bdr +)	100%	N	9/29/16	\$600,000
Rowland Heights Apartments	California	For-Profit Developer	Rehab of Existing Units	144 (100% 2 bdr +, 22.2% 3 bdr +)	98%	Y	12/22/15	\$1,080,000

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Project Title	State	Non-Profit or For-Profit Developer	New Construction or Rehab	Number of Units	Percentage of Affordable Units	SADDA	Closing Date	Subordinate Loan Amount
Ruby Portfolio (incl. Lexy Manor, Fairhaven Manor, Madrona Manor, Norris Place)	Washington	For-Profit Developer	Rehab of Existing Units	166 (79.5% 2 bdr +, 30.1% 3 bdr +)	98%	N	10/8/15	\$1,500,000
Shadow Hills	California	Not-For-Profit Developer	Rehab of Existing Units	101 (74.3% 2 bdr +, 7.9% 3 bdr +)	99%	Y	10/19/16	\$990,000
Sierra Highlands, a/k/a Terracina at Reno	Nevada	For-Profit Developer	Rehab of Existing Units	144 (77.8% 2 bdr +, 22.2% 3 bdr +)	100%	Y	8/25/15	\$1,420,000
Sonoma Springs California, a/k/a Fetters Apartments	California	Not-For-Profit Developer	New Construction	60 (68.3% 2 bdr +, 31.7% 3 bdr +)	98%	Y	6/9/15	\$1,200,000
South Hill by Vintage	Washington	For-Profit Developer	New Construction	216 (88.9% 2 bdr +, 33.3% 3 bdr +)	100%	N	9/30/15	\$2,160,000
Sterling Park Apartments	Illinois	Not-For-Profit Developer	Rehab of Existing Units	181 (56.4% 2 bdr +, 27.6% 3 bdr +)	100%	N	6/30/15	\$1,000,000
Story Avenue East	New York	For-Profit Developer	New Construction	212 (53.8% 2 bdr +, 21.2% 3 bdr +)	79%	N	6/29/16	\$3,000,000
Sunshine Terrace + Osage Apartments	California	Not-For-Profit Developer	Rehab of Existing Units	71 (100% 2 bdr +, 85.9% 3 bdr +)	97%	Y	10/24/16	\$750,000
Sylmar Court	California	For-Profit Developer	New Construction	101 (75.2% 2 bdr +, 30.7% 3 bdr +)	99%	Y	3/31/16	\$2,000,000
Tays South Apartments	Texas	For-Profit and Not-For-Profit Developer	New Construction	198 (79.8% 2 bdr +, 19.2% 3 bdr +)	100%	N	12/1/15	\$2,500,000

# CITI MONITORSHIP

## SIXTH REPORT FEBRUARY 2017

Project Title	State	Non-Profit or For-Profit Developer	New Construction or Rehab	Number of Units	Percentage of Affordable Units	SADDA	Closing Date	Subordinate Loan Amount
Terracina at Laguna Creek	California	For-Profit Developer	Rehab of Existing Units	136 (67.6% 2 bdr +, 32.4% 3 bdr +)	99%	Y	9/30/15	\$680,000
The Crossing at Old Towne, f/k/a Y Site Apartments	Maryland	For-Profit Developer	New Construction	199 (65.3% 2 bdr +, 3.0% 3 bdr +)	100%	N	4/9/15	\$2,000,000
The Meekerman	New York	For-Profit Developer	New Construction	50 (54% 2 bdr +, 0% 3 bdr +)	98%	Y	7/30/15	\$1,500,000
The Merano, a/k/a Parcel 1B	Massachusetts	For-Profit Developer	New Construction	239 (28.5% 2 bdr +, 10% 3 bdr +)	20%	Y	12/17/15	\$3,585,000
The Oaks	California	Not-For-Profit Developer	Rehab of Existing Units	36 (100% 2 bdr +, 38.9% 3 bdr +)	97%	Y	12/15/15	\$540,000
The Oaks at Joiner Ranch, a/k/a Brookside Crossing Apartments	California	For-Profit Developer	Rehab of Existing Units	206 (88.5% 2 bdr +, 46.2% 3 bdr +)	100%	Y	11/6/15	\$4,160,000
The Villages	Florida	For-Profit Developer	New Construction	150 (97.3% 2 bdr +, 38.7% 3 bdr +)	100%	N	12/30/14	\$1,000,000
Timothy House and Gardens	Maryland	Not-For-Profit Developer	Rehab of Existing Units	81 (25.9% 2 bdr +, 25.9% 3 bdr +)	100%	Y	8/12/15	\$1,012,500 partial purchase money loan
Torrey Vale, f/k/a Elms and Ivy Apartments	California	For-Profit Developer	New Construction	28 (100% 2 bdr +, 28.6% 3 bdr +)	96%	Y	1/15/16	\$280,000
Villa Cortina	California	For-Profit Developer	Rehab of Existing Units	116 (100% 2 bdr +, 34.5% 3 bdr +)	99%	Y	9/30/15	\$580,000
Villa La Esperanza	California	Not-For-Profit Developer	Rehab of Existing Units	83 (90.4% 2 bdr +, 56.6% 3 bdr +)	98%	Y	12/23/15	\$622,500

# CITI MONITORSHIP

SIXTH REPORT FEBRUARY 2017

Project Title	State	Non-Profit or For-Profit Developer	New Construction or Rehab	Number of Units	Percentage of Affordable Units	SADDA	Closing Date	Subordinate Loan Amount
Virginia Lane	California	Not-For-Profit Developer	Rehab of Existing Units	91 (64.8% 2 bdr +, 0.0% 3 bdr +)	98%	N	7/22/16	\$910,000
Innovia Apartments, f/k/a/ Warm Springs BART	California	For-Profit Developer	New Construction	290 (46.9% 2 bdr +, 2.4% 3 bdr +)	100%	Y	10/19/16	\$3,575,000
Washington Elms	Massachusetts	Not-For-Profit Developer	Rehab of Existing Units	175 (82.3% 2 bdr +, 14.3% 3 bdr +)	100%	Y	4/1/15	\$4,627,963
Webster Green	New York	Not-For-Profit Developer	New Construction	82 (36.6% 2 bdr +, 0% 3 bdr +)	99%	N	4/26/16	\$1,230,000
Westview Village - Phase I	California	Not-For-Profit Developer	New Construction	130 (81.5% 2 bdr +, 43.1% 3 bdr +)	99%	N	12/21/16	\$1,950,000
Willis Avenue Apartments	Iowa	For-Profit Developer	New Construction	38 (55.3% 2 bdr +, 10.5% 3 bdr +)	89%	N	12/8/15	\$1,140,000
Willow Lake Apartments	Florida	For-Profit Developer	New Construction	121 (100% 2 bdr +, 100% 3 bdr +)	100%	N	10/21/15	\$750,000