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Rating Action: Moody's downgrades to A3 from A2 MTA Hudson Rail Yards Trust Obligations (NY) Ser 2016A. Outlook negative.

21 Sep 2020

New York, September 21, 2020 -- Moody's Investors Service has downgraded the rating to A3 from A2 on the Metropolitan Transportation Authority, NY (MTA) Hudson Rail Yards Trust Obligations, Series 2016 A. The outlook on the rating is revised to negative from stable.

There is \$682.43 M million in rated debt affected by this action. There is also \$162.6 million in 2020A refunding obligations that are unrated.

RATINGS RATIONALE

The downgrade to A3 incorporates a weakening of the liquidity support provided by the MTA, as reflected by the recent downgrade of the MTA's Transportation Revenue Bonds from A2/Neg to A3/Neg. The MTA provides liquidity support for interest reserve replenishment for up to 7 years following a lease default. The A3 rating is also supported by the strength of the ground lease legal structure, including escalating, fixed ground rent payments, the strong incentives for parties to pay ground lease payments or cure defaults given the ultimate anticipated value of the properties once constructed, and the senior-most claim of the obligations on lease revenue.

RATING OUTLOOK

The outlook has been revised to negative from stable reflecting the potential for further weakening of the MTA's liquidity support, as demonstrated by the negative outlook on the Transportation Revenue Bonds rating, as well as a the potential for weakening of the commercial real estate market in New York City.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATING

- Completion and lease-up of all buildings with a history of all leases paying in full and on-time
- Upgrade of the MTA's Transportation Revenue Bonds (A3/Neg)

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATING

- Significant construction delays and/or lease default
- A downgrade of the MTA's Transportation Revenue Bonds rating (A3/Neg) which would indicate a deterioration of the credit quality supporting the interest reserve advances

LEGAL SECURITY

Series 2016A are special limited obligations payable solely from the Trust Estate established under the Trust Agreement. The trust estate consists principally of monthly ground rent from tenants of the ERY and WRY, monthly scheduled transfers from the capitalized interest fund, payments made by the tenant upon the exercise of fee purchase options, contingent support payments made by the MTA (including interest reserve advances), and rights of the MTA to exercise remedies under the leases and rights of the Trustee to exercise remedies under the leases and the Fee Mortgage. To date, MTA has not had to make any contingent support payments.

The MTA granted separate fee mortgages to the trustee, Wells Fargo Bank, NA, giving the trustee a first secured lien on the MTA's fee simple interest in the owned property demised under the ERY and WRY leases, including each severed lease (the fee mortgages are not cross defaulted nor cross-collateralized). The fee mortgages secure the MTA's obligation to pass on payments of ground rent and fee option payments received from tenants under the ground lease. If the MTA does not exercise cure rights following a lease non-payment event of default, the trustee may exercise its remedies under the corresponding fee mortgage, including foreclosing MTA's fee interest and stepping into the MTA's position as fee owner of the applicable property and as landlord under the defaulted lease. This gives the trustee the right to terminate the lease and sell and/or re-lease the property.

PROFILE

The obligor is the MTA Hudson Rail Yards Trust Obligations, issued under a trust agreement dated as of September 1, 2016. The financially responsible party for the obligations is the MTA, a public benefit corporation of New York State, created by the New York State legislature in 1965. The MTA is responsible for developing and implementing a unified mass transportation policy for the Metropolitan Transportation District which includes New York City and the surrounding Dutchess, Nassau, Orange, Putnam, Rockland, Suffolk, and Westchester counties.

METHODOLOGY

The principal methodology used in this rating was Global Housing Projects published in June 2017 and available at https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBM_1077122 . Alternatively, please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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The rating has been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

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Rachael McDonald
Lead Analyst
Housing
Moody's Investors Service, Inc.

7 World Trade Center
250 Greenwich Street
New York 10007
US
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Florence Zeman
Additional Contact
Housing
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

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