

# HPD PRESERVATION FINANCE UNDERWRITING CRITERIA

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## ARTICLE 8A LOAN PROGRAM

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- 1. PROGRAM DESCRIPTION** The Article 8A Loan Program provides rehabilitation loans at 3% interest for the replacement of major building systems in order to improve living conditions and preserve safe affordable housing for low- and moderate-income households.
- 2. ELIGIBLE BORROWERS** Partnerships, corporations, joint ventures, limited liability companies, 501c(3) corporations, individuals, and housing development fund corporations (HDFCs). Borrowers must have been rejected by at least two institutional financing sources prior to application to the Article 8A Loan Program.
- 3. ELIGIBLE BUILDINGS** Rent-stabilized multiple dwellings, Mitchell Lama developments, and HDFC co-ops with average rents/maintenance charges at approximately 55% AMI. Average rents may not exceed current limit of \$244/room.
- 4. ELIGIBLE USES** Replacement and/or repairs of building systems, and the removal of housing violations and hazardous conditions. Rehabilitation is limited to residential work only. Loans may not be used to refinance existing debt.
- 5. HPD SUBSIDIZED LOAN AMOUNT** Subsidized loan amount depends on the rehabilitation needs of the building, with a maximum of \$35,000 per unit. Subsidy amounts will be adjusted accordingly for projects that utilize additional funding sources or programs.
- 6. HPD SUBSIDIZED LOAN TERMS**
- Maximum loan term: 30 years
  - Interest Rate: 3%
  - Minimum Debt Service Coverage Ratio: 1.25 if the 8A loan is the only financing on the building; and 1.15 combined if additional mortgages are outstanding.
  - Minimum Expense Coverage Ratio for HDFC coops: 1.05
- 7. EQUITY REQUIREMENTS** Equity requirements are based on cash flow, available reserves, and the subsidy amount with a minimum requirement of 10%. Borrower equity is typically provided as a portion of the rehabilitation scope paid for directly by the owner as per a Housing Repair Agreement executed at closing.
- 8. HPD FEES**
- HPD Commitment Fee: 1% of the portion of the mortgage funded by HPD, with the exception of Federal HOME funds.
  - HPD Closing Fee: 0.5% of the portion of the mortgage funded by HPD.
  - Mitchell-Lama coops are exempt from the Commitment and Closing fees.
  - Non-refundable application fee: \$150
  - Construction signage fee of \$200.
  - Fees must be paid by borrowers and are not counted towards owner equity requirement
  - Excluding the signage fee, these fees are waived for not-for-profit borrowers.
- 9. RENT SETTING** After rehabilitation, rents may be adjusted to ensure repayment of debt service. Regulatory status for individual units (rent control/rent stabilization) will not change.

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- 10. REGULATORY REQUIREMENTS: RENTAL BUILDINGS** All projects must enter into a regulatory agreement with a minimum term of 30 years and the following requirements
- Current and future vacant apartments must be rented to households whose incomes do not exceed 120% of AMI.
  - Rents may not exceed a level affordable to households earning 120% AMI.
  - Vacancy and luxury decontrol are not permitted for the duration of the HPD restriction period.
  - The owner may not apply to DHCR for MCI increases in connection with the work funded by the Article 8A loan or identified in the Housing Repair Agreement.
  - On an annual basis, HPD requires that Borrowers submit a certified rent roll, a written certification of tenant incomes, and supporting documentation for rent and income determination pursuant to the regulatory agreement.
  - All projects receiving enriched J-51 tax benefits, regardless of subsidy amount or project size, shall be subject to a regulatory agreement during the term of the tax benefits.
- 11. REGULATORY REQUIREMENTS: HDFC COOPERATIVES** All HDFC cooperatives must enter into a regulatory agreement requiring that:
- The development must have a minimum 80% shareholder-owned units;
  - The HDFC must employ professional paid management services;
  - The building must maintain a monthly 5% operating reserve account;
  - The project must remain an HDFC for the entire 8A Loan term;
  - Borrowers or shareholders shall not sell any unit to a tenant whose annual household income exceeds 120% AMI.
  - Maintenance charges shall increase by at least 2% annually; and
  - On an annual basis, HPD may request documentation demonstrating that unit sales have been conducted in accordance with the regulatory terms.
- 12. OTHER**
- Real Estate Tax Benefits: Projects are typically eligible for property tax abatement through the J-51 program.
  - Mitchell-Lama developments are prohibited from "buy-out" of the New York City Mitchell-Lama program for the entire 8A Loan term.

**13. CONTACT**

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*HPD, in its sole discretion, may, at any time and without prior notice, terminate the program, amend or waive compliance with any of its terms, or reject any or all proposals for funding.*

NOTE: The project receiving funding under this program may be subject to Section 3 of the Housing and Urban Development Act of 1968 (12 U.S.C. 1701u) and the implementing regulations at 24 CFR part 135. If applicable to the project, (i) to the greatest extent feasible, opportunities for training and employment arising in connection with the planning and carrying out of the project must be given to "Section 3 Residents" as such term is defined in 24 CFR 135.5; and (ii) to the greatest extent feasible, contracts for work to be performed in connection with any such project must be awarded to "Section 3 Business Concerns" as such term is defined in 24 CFR part 135.5.