

NEW VENTURES INCENTIVE PROGRAM ("NEWVIP")

Overview

On December 10, 2002 Mayor Michael R. Bloomberg announced his *New Housing Marketplace* initiative, a \$3 billion effort to build and preserve 65,000 housing units over five years. Central to the Mayor's vision is the expansion or creation of residential communities within derelict or substantially vacant manufacturing zones of the City. As a result, the Department of City Planning (DCP) has systematically undertaken a review of the existing manufacturing zones. Manufacturing zones along the Third Avenue corridor in the Morrisania section of the Bronx, on the waterfront in the Greenpoint/Williamsburg sections of Brooklyn and in the "downtown" of the Jamaica section of Queens have all been proposed for rezoning to permit residential development. In the coming years, DCP will propose other such areas for rezoning.

However, the Mayor recognizes that considerable obstacles may exist for developers, both profit and not-for-profit, seeking to build housing in these zones. In particular, the prior manufacturing uses may have left certain of these areas with a level of environmental contamination that would prohibit residential development without first remediating the hazards. Unless there is full knowledge of the extent of the remediation needed, including its cost and consequent liability housing development within these zones will likely not be able to attract needed financing. The financial risks to any developer might inhibit the redevelopment of the City's former manufacturing zones.

In order to address these issues, the Mayor has proposed the creation of the New Ventures Incentive Program. Under this program a pool of \$200 million over five years will be made available by New York's financial institutions and the City that will facilitate the development of 10,000 units of housing.

Purpose

To provide predevelopment loans for projects located in manufacturing zones of the City that have been or are to be rezoned for residential use.

Eligible Projects

A project might include new construction, the substantial rehabilitation of existing residential buildings or, the project may involve the conversion of non-residential buildings to residential on an as-of-right basis. First priority will be given to development projects proposed for areas of the City that have been or are to be rezoned from manufacturing to residential use. Other projects will be considered if those projects are either (1) located in parts of the City subject to other rezoning actions of DCP or (2) individual projects where substantial environmental contamination exists. Selection of projects from the latter category will be subject to funding availability and determination that they meet the City's strategic goals. Preference will also be given to projects that are affordable to middle-, moderate- and low-income families. Market-rate proposals will be considered if there are an insufficient number of affordable projects in any given year to utilize the available funds.

Eligible Uses

Program funds can be used for the acquisition of a site, environmental studies and testing, site planning and design costs required for creation of an environmental remediation plan, environmental insurance reasonably required by lender, environmental remediation, and related soft costs. Proceeds of the loan may be used to reimburse borrower for eligible costs incurred prior to loan closing.

Interest Rate

The Prime Rate as reported daily in the Wall Street Journal plus 25 bps as a servicing fee.

Term

Loan shall become due and payable upon the earlier of the date of construction loan closing for the project or 24 months from the date of the predevelopment loan closing.

Loan-to-Cost

The loan-to-cost value will not exceed 75% of the project costs unless otherwise approved by the program's loan committee. This is defined as 75% of the "as is" appraised value of the land plus 75% of other costs. Other funding, grants or subordinate financing, may satisfy the equity requirement.

Maximum/Minimum Loan Size

Loan amounts will not exceed \$20,000 per proposed unit to be built/renovated. The minimum loan amount is \$400,000. Smaller loan amounts may be considered on a case-by-case basis especially if the NewVIP loan is part of a larger financing package. The maximum loan amount is \$5,000,000.

Capitalized Interest Reserve

The borrower will be required to capitalize from loan proceeds a reserve from which interest shall be paid. The lender will determine the size of the interest reserve.

Recourse

The loans are full recourse to borrower. Security interest in any property acquired with proceeds of loan.

Fees

An origination fee of 100bps on the loan amount will be payable on closing of the loan. A servicing fee of 25bps will be payable as interest.

Conditions Precedent to Closing

- Completed and satisfactory disclosure documents for principals (and any known investors) with more than 10% interest in the project.
- Financial statements and credit reports for borrower and/or principals of borrower.
- Borrower's organizational documents.
- Phase 1 environmental report (and Phase 2 as required) with reliance letter(s) to lender.
- If remediation work is necessary (based on the results of environmental testing), a scope of work prepared by a qualified environmental consultant together with a budget for the work.
- Environmental insurance as required by lender.

- Description of the proposed project including but not limited to number of units, income and rent targeting.
- Preliminary site plan and schematic drawings for proposed project. Design must meet HPD's Design Guidelines for New Construction/Substantial Rehabilitation.
- Preliminary budget for proposed project that is acceptable to lender.
- A current FIRREA compliant appraisal of the property with reliance letter to lender.
- Good and marketable title, free and clear of encumbrances except as permitted by lender.
- Title Insurance and survey in form and substance acceptable to lender.
- Expressions of interest from construction and permanent lenders to finance the proposed project.
- Property and liability insurance in form and substance acceptable to lender.
- Note
- Mortgage.
- UCCs.

Conditions Precedent to Fundings

- Requisitions in form and substance acceptable to lender.

Sources of Construction and Permanent Financing

Projects receiving NewVIP loans shall have priority for construction and permanent financing through the programs provided for under the *Mayor's New Housing Marketplace*. However, projects will have to meet the eligibility criteria for and be subject to terms and conditions of those programs including certain tenant income limitations and rent restrictions.

Contact Information

Brian Cheigh
100 Gold Street, Room 9P9
New York, New York 10038
(212) 863-5520

www.nyc.gov/hpd