Article II to XI Conversion Program

The New York City Department of Housing Preservation and Development (HPD), in conjunction with the New York City Housing Development Corporation (HDC), has created a program focused on preserving the affordability of Mitchell-Lama housing. The goal of the Article XI Conversion Program is to facilitate the long term preservation of affordable housing by converting from a Mitchell-Lama cooperative to an HDFC cooperative and providing financial incentives to existing shareholders. The benefits of the program include the following:

1. Assures the continuation of the cooperative as affordable housing;
2. Protects existing shareholders;
3. Offers existing and future shareholders the opportunity to realize a return on their investment;
4. Generates capital to support the maintenance and operations of the cooperative; and,
5. Provides rehabilitation loans for the developments.

Program Outline

- Term of Restrictions: 30 year commitment to remain as an Article XI.

- Income Restrictions: Incoming purchasers can have a household income of up to 130% of AMI; the Board will approve applicants and HPD/HDC will review applications to ensure they meet the income guidelines.

- Sales Price: HPD will establish sales prices to be affordable to incoming shareholders earning up to 130% of Area Median Income. (The combined maintenance and debt service on borrower end loans cannot exceed 33% of the potential household income.) Prices will be increased by HUD's annual Area Median Income increases.

- Tax Exemption: HPD will request approval by the City Council for a new tax exemption based on agreed upon sales prices.

- Internal Governance: The Board of Directors will have full responsibility for the running of the corporation.

- Maintenance Increases: Annual maintenance increases will be required based upon the Rent Guidelines Board guidelines. However, if the development documents that it maintains a debt service coverage ratio of 1.05, an increase will not be required for that year.

- Management: The development must engage a third party professional management company that is approved by HPD/HDC.

- Reserve Funding: Reserve funding minimum will be $1,000 per dwelling unit, plus annual deposits of $250 per unit. The initial funding of these reserves will either be part of a rehabilitation mortgage, of if from the operating account, will be phased in. The proceeds from the flip tax will provide additional funding to the reserve account.

- Occupancy Standards: Occupancy Standards will remain the same as the Mitchell-Lama occupancy standards. There will be no move-down requirement for households that fall below the household size standard subsequent to move in. Households receiving Section 8 subsidy will be separately subject to any Section 8 occupancy standards.

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- Subletting/Owner Occupancy: Subletting is not permitted. Shareholders must continuously occupy their dwelling units as their sole primary residence at least 183 days per year, unless the shareholder is in active service in the Armed Forces of the United States, in a hospital or rehabilitation facility, on a temporary work relocation or attending a full time educational program.

- Inheritance/rights of succession: The Board of Directors will be responsible for approving successor tenancies.

- HPD/HDC will have the right to inspect the books and records of the HDFC.

- Transfer Fee: Transfer fees will be established by the Board of Directors. HPD/HDC suggest the following flip taxes:

    - First Sale Flip Tax – would apply to the first sale of a unit post-conversion to Article XI and would equal 25% of the seller's profit.

    - Resale Flip Tax – would apply to all subsequent sales of a unit post-conversion to Article XI and would equal 5% of the seller's profit.

- Default: In the event of breach of the regulatory agreement HPD/HDC will have the authority to extend the regulatory period based upon the length of the breach period. Where applicable, the development will have a reasonable opportunity to cure.

Please Note: Nothing herein shall bind the City of New York, which shall only be bound by the terms of a fully executed Regulatory Agreement.