Department of Housing Preservation & Development
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NYC Department of Housing Preservation and Development (HPD)

Office of Development, Division of Preservation Finance

Neighborhood Pillars
Term Sheet

Program Description	The Neighborhood Pillars program provides low-interest loans and tax exemptions to not-for-profit organizations, mission driven for profits or certified Minority and Women-owned Business Enterprise (M/WBE) to acquire and rehabilitate unregulated or rent stabilized residential buildings with significant financial and/or physical distress, in order to improve and preserve housing affordable to low- to moderate-income households.
Eligible Projects	Multiple dwellings with three or more units that are rent stabilized or unregulated, and experiencing financial and physical property distress, including but not limited to: a significant number of open HPD violations, substantial amounts of outstanding DOF and/or DEP arrears, considerable municipal debt relative to the property's market value and at-risk of default or foreclosure. Additionally, a property may be eligible for Neighborhood Pillars if they are involved in Special Enforcement Initiatives or HPD Enforcement Programs, undergoing comprehensive litigation with HPD, issued vacate orders, or have substantial rehabilitation needs and will be addressing these issues as part of an acquisition and rehabilitation scope. Properties that have previously received State or City Low Income Housing Tax Credits (LIHTCs) are not eligible and should contact the HPD Year 15 Program (hpdyear15@hpd.nyc.gov). Projects that have previously received HUD-assistance are not eligible and should contact the HPD HUD Multifamily Program (hpdhudmf@hpd.nyc.gov). For Program purposes, HUD-assisted is defined as properties where a majority of the units are covered by a form of project-based rental assistance including various types of Housing Assistance Payment (HAP) contracts, Moderate Rehabilitation (Mod Rehab), Moderate Rehabilitation Single Room Occupancy (Mod SRO) or Rental Assistance Demonstration Component II (RAD) contracts and/or properties that received federal subsidies through programs including the HUD 202, 236, or 811 programs.
Eligible Borrowers	The program is open to not-for-profit organizations, mission driven for-profits or certified Minority and Women-owned Business Enterprise (M/WBE). Eligible entities include 501(c)(3) corporations, single purpose housing development fund corporations using the HPD approved Certificate of Incorporation, limited partnerships, corporations, joint ventures where M/WBEs or not-for-profit organizations serve as the majority owners, limited liability companies, and individual owners.
Eligible Uses	The acquisition and moderate or substantial rehabilitation of multiple dwellings. Acquisition costs must be supported by an as-is appraisal (completed according to HPD's Approved Appraisal Guidelines) and with approval by HPD, prior to acquisition.
HPD Loan Amount	Maximum HPD subsidy amount is up to $380,000 per unit. HPD will only recognize acquisition prices at the lesser of the contract acquisition price or "as-is" appraised value. Preferences will be given to projects demonstrating cost containment; examples may include but will not be limited to proposals that utilize efficient construction and lease-up schedules, and use of reserves and construction period cash flow.

HPD Loan Terms and Underwriting Requirements

- Minimum Permanent Loan term: 30 years.
- Construction Term Interest Rate: 1% per annum plus 0.25% servicing fee. HPD may consider deferring and accruing interest to accept a paid rate under 1.00%. The servicing fee cannot be deferred. Any accrued and deferred interest is to be paid as a balloon at maturity of the permanent loan.
- Permanent Loan Interest Rate: Interest rate will be set and accrue at the long-term monthly compounding Applicable Federal Rate (AFR), with a minimum floor of 2.5% compounding monthly. A paid rate of 1% per annum (inclusive of 0.25% servicing fee) will be required during the permanent loan period. HPD may reduce the paid rate to leverage additional private financing. Any unpaid interest will defer and accrue, to be paid as a balloon at maturity.
- The senior permanent debt term should be coterminous with the HPD Permanent Loan
- Debt Service Coverage: 1.15 on all financing.
- Reserves:
    - Operating Reserve that is an amount equal to or greater than 6 months of maintenance and operating expenses and debt service on all loans is required.
    - Replacement reserve of $300 per unit per year, increasing at 3% annually, paid from cash flow.
    - All Project reserves will remain in place for the full restriction (regulatory agreement) period. If private senior debt is satisfied prior to the end of the restriction period and the senior lender controlled the reserves, HPD will assume control of all reserves, which will remain in place for the benefit of the project.
- Contingency: 10% of hard costs; 5% of soft costs.
- Letter of credit (10% of hard costs excluding contingency) or Payment and Performance Bond (100% of hard costs) is required.
- Vacancy and Collections Loss Rate: 5% for Residential and 10% for Commercial.
- Commercial Space: all commercial spaces must have triple net leases at closing or next lease renewal that require commercial tenants to pay for any commercial property taxes. Master leasing of commercial spaces may be allowed on a case-by-case basis, which is dependent on financial feasibility for the Project.
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Prevailing Wage Requirements

Beginning on April 2, 2020, developers or owners of new construction or preservation residential projects with 120 or more residential units in one or more buildings receiving discretionary City financial assistance of $1 million or more will be required to pay all building service employees no less than the prevailing wage.

The Prevailing Wage Schedule is issued annually for building service employees by the New York City Comptroller's Office.

Protected Wage Requirements

Beginning on April 2, 2020, developers or owners of preservation projects receiving discretionary City financial assistance of $1 million or more will be required to pay all building service employees no less than the protected wage.

A preservation project for the purposes of the protected wage requirement is defined as:

	1. a project undertaken by the City to preserve no more than 119 residential units in one or more buildings and receiving discretionary City financial assistance of $1 million or more; or 2. a project undertaken by the City to preserve 120 or more residential units in one or more buildings that is subject to a regulatory agreement requiring affordability of all residential units for households earning on average of up to 50% AMI and receiving City discretionary financial assistance of $1 million or more that is solely in the form of a tax benefit; or 3. a project undertaken by the City to preserve 120 or more residential units in one or more buildings that is subject to a regulatory agreement requiring affordability of all residential units for households earning on average of up to 50% AMI and that averages less than $35k per DU in discretionary City financial assistance of $1 million or more. 4. The protected wage means the rate of wages and cost of benefits paid to a building service employee in a preservation project on the date that the financial assistance for such a project is received plus an annual increase to account for any change in the cost of living and in the cost of providing benefits. The protected wage annual increase will be determined by City agency rulemaking. **Exemptions** The requirements of this law do not apply to converted public housing building service workers and supportive housing projects as defined by the law. **Prevailing Wage Requirements – City Initiated Rezoning Areas** This law is applicable in City initiated rezoning areas that meet the criteria set forth in the law. In addition, it remains the City's policy to require that, in City initiated rezoning areas, prevailing wage must be paid to all building service employees in new or existing buildings with at least 30 units of residential housing that receive discretionary City financial assistance of $1 million or more with certain exemptions for preservation projects. More information is available online at: https://www.nyc.gov/site/hpd/services-and-information/prevailing-wage.page

Borrower Cash Equity Requirements, Developer Fee and Net Cash Flow Restrictions	**Equity Contributions**
	
	All developers: minimum of 2% of TDC less acquisition, existing debt, reserves, and developer fee. Equity can also be met with project sources, i.e. construction-period cash flow, excess reserves as available
	
	Developer's Fee
	
	All Projects:
	• Non-LIHTC Projects:
	  ○ 8% of TDC less acquisition, existing debt, reserves, and developer fee with a developer fee cap of $35,000 per dwelling unit.
	• LIHTC Projects: Overall fee capped in accordance with the HPD Low Income Housing Tax Credit Qualified Action Plan (QAP)
	  ○ HPD will allow up to 8% of TDC less acquisition, reserves, and developer fee with a cap of $35,000 per dwelling unit to be paid by permanent loan conversion. The remaining fee will be deferred and if the remaining fee exceeds an amount that can be repaid with 15-year cash flow then the overall fee must be reduced to not an exceed an amount that can be repaid within 15 years of cash flow

	• Consultant fees, including development consultants, owner's representatives, etc. must be paid from the developer fee. • Up to 50% of the paid developer fee may be released between construction loan closing and permanent loan conversion in accordance with the following milestones: 10% of paid developer fee at construction loan closing (inclusive of the amount required to pay consultant fees), up to 15% of paid fee may be released at 50% completion and up to 25% of the paid developer fee may be released at construction completion as evidenced by a fully executed Certificate of Substantial Completion or Temporary Certificate of Occupancy (TCO), if applicable. The remaining balance of the paid developer fee will be payable upon permanent loan conversion. • The eligible Developer's fee may be reduced if HPD subsidy exceeds the maximum HPD Loan Amount outlined above. . **Cash Flow Restrictions:** • HPD will require a 15 year cashflow sweep for projects whose underwriting demonstrates an I/E below 1.05 in Year 15. These funds will be required to be swept into a City-controlled reserve.
Fees and Closing Costs	• HPD Commitment Fee of 1% of the portion of the mortgage funded by HPD. • HPD Closing Fee of 0.5% of the portion of the mortgage funded by HPD. • The HPD Commitment and Closing Fees may be waived for not-for-profit and Co-op borrowers if there is a demonstrated hardship. Construction signage fee per building: $100 • Equal Opportunity Review Fee per project: $1,400 • Davis Bacon/Prevailing Wage Monitoring fee per project: $30,000 • Fees must be paid by borrowers and are not counted towards owner equity requirements • Private lenders may have their own additional fees, underwriting requirements, and conversion requirements.
Rent Setting	• For occupied units, collectible rents will be projected to increase by rent stabilization allowances during the construction period. If a more significant increase is necessary to support building operations and debt service, rents may be restructured post-completion. If needed, post-completion and upon HPD's issuance of a rent order, collectible rents will be set no higher than a level affordable to households earning 60% AMI. • For vacant units, rents shall generally be set no higher than a level affordable to households earning 120% AMI, unless further restricted based on federal funding sources and/or LIHTC requirements if applicable. Rents for vacant units may be set at multiple tiers under 120% AMI.
Regulatory Restrictions	Projects will be subject to at minimum a 30-year regulatory agreement with the following requirements: • Projects must commit to permanent affordability for no less than 30% of the units. The permanently affordable units shall be contained in the lowest regulated tiers. • Rents for all units in a project shall be restricted in one or more regulatory tier that are determined by the existing rent distribution, amount of HPD subsidy provided, and restrictions set forth through other subsidies or regulations. • Units with rents set up to 80% AMI can be rented to households earning up to 10% above the rent limitation. Units with rents set above 80% can be rented to households earning up to 20% above the rent limitation. • All units must be registered with DHCR and are subject to the New York State Rent Stabilization regulations. Work completed as a result of the financing is not eligible for Individual Apartment Increases (IAIs) or Major Capital Improvement

	increases (MCIs). Vacancy and luxury decontrol are not permitted for the duration of the HPD restriction period. • Projects shall set aside at least 20% of the total units as homeless units. All homeless unit referrals must be made by HPD's Homeless Placement Unit. • HPD requires annual submission of a certified rent roll; written certification of tenant incomes on vacant units; and supporting documentation for rent and income determination pursuant to the regulatory agreement. • Projects with plans to acquire and convert to limited equity cooperative please reach out to HPD to flag this and obtain a list of specific due diligence and milestone requirements.
Real Estate Tax Benefits	Projects may be eligible for full or partial residential property tax exemption through the J-51, 420-c, 420-a or Article XI tax benefit programs, as applicable. Projects receiving an Art XI may be subject to a Gross Rent Tax (GRT) payment. Gross Rent is defined as total annual income received which includes tenant share plus any tenant subsidy payments. Projects with commercial space will be responsible for the payment of commercial taxes.
Design and Construction Requirements	**Design Guidelines:** All projects are required to comply with the applicable Design Guidelines based on a project's Rehab Classification. Project teams are required to follow HPD's process protocols and will be required to submit a Design Guidelines Workbook at multiple milestones. The final version must be signed by the owner/ developer and the architect of record certifying that the project complies with the Guidelines. • Preference will be given to projects demonstrating cost containment, and where utility costs will not be increased as a result of building electrification. • HPD allows Design Waivers for certain mandatory Design Guidelines criteria, which may be used for reasons of technical or financial infeasibility or if implementation will cause negative impacts on residents. • Projects implementing building electrification are required to apply to HPD's REDi program for funding: redi (nyc.gov). Note that REDi prioritizes electrification where is it required by the HPD Design Guidelines, which aligns with HPD's goals of beneficial electrification. Buildings not receiving REDi funding are strongly encouraged to seek other NYSERDA and/or utility incentives. · Projects that include electrification in scope will be subject to HPD's Electric Heat Policy and will need to underwrite to HPD's M&O standards for Electric Heating and Hot Water (and Utility Allowances where applicable). Additional Information can be found here: Underwriting Electric and High-Performance Buildings - HPD (nyc.gov) • Projects should not implement optional "reach" criteria if it will cause project to exceed term sheet amounts and costs can't be offset by energy savings and/ or incentives. **IPNA & Scope:** The loan amount is sized according to the rehabilitation needs of the building. Energy efficiency, water conservation and rehabilitation needs are determined through an Integrated Physical Needs Assessment (IPNA), which is a roof-to-cellar assessment of a building's physical conditions combined with an energy audit and conducted by a third party firm found on : Integrated Physical Needs Assessment (IPNA) - NYSERDA . The following items from the IPNA must be included in the project's scope: • Items that correct physical deficiencies and significantly lower energy and water cost,

- items noted as being in "poor condition" and/or items noted as "unsafe", and
- systems, components, and finishes that are classified as "immediate needs" or with a RUL of 5 years or less.
- In addition, the scope must include all applicable, mandatory items that are required in order to comply w/ HPD's Preservation Design Guidelines.

LOCAL LAW 97: Most HPD projects > 25,000 SF are subject to Local Law 97 starting in 2024. The Design Guidelines will ensure that projects are able to comply. For projects not subject to the Design Guidelines, refer to the HPD LL97 Prescriptive Measures Checklist, or the IPNA's LL97 Compliance Tab.

SOLAR: Per HPD's Solar Where Feasible Mandate, all HPD Preservation projects receiving subsidy are required to submit and install solar where it is deemed cost-effective. 50% of the projected annual savings from solar will be underwritten for all projects where solar is part of the HPD budget.

Participation in HPD's Aging in Place initiative will be required and work requested by tenants in response to Aging in Place surveys or 504 Accessibility (if triggered by the scope of work) must be incorporated in the scope of work.

Enterprise Green Communities (EGCC): All substantial and gut rehabilitation projects, as defined by HPD, receiving funding from HPD must comply with the current version of the New York City Overlay (NYC Overlay) of EGGG or may pursue certification with LEED v4, gold or platinum

Building Benchmarking: Prior to closing, all projects must complete benchmarking on a whole building basis using a Benchmarking Software Provider Firm that has been pre-qualified by HDC: http://www.nychdc.com/Current%20RFP. Funded projects must benchmark throughout the loan and regulatory term.

MWBE Requirements: Projects where HPD/HDC's contribution is more than $2 million will have to comply with the M/WBE Build Up Program requiring developers/borrowers to spend at least a quarter of HPD-supported costs on certified M/WBEs over the course of design and construction of an HPD-subsidized project. A minimum goal will be required for each project subject to the program. Developers may adopt a goal higher than the minimum.

http://www1.nyc.gov/site/hpd/developers/mwbe-build-up-program.page

HireNYC: HPD requires developers, general contractors, and subcontractors working on projects receiving more than $2 million in City subsidy to share job openings in entry- and mid-level construction positions with HireNYC and to interview the qualified candidates that HireNYC refers for those openings.

http://www1.nyc.gov/site/hpd/developers/hirenyc.page

Incentives:

- Resilient and Equitable Decarbonization Initiative: Existing Buildings (REDi EB): All multi-family (5+ units) preservation projects receiving subsidy through one of HPD's loan programs can apply to receive REDi funding for the designated scope items.
- Through REDi, HPD projects receive funding to complete electrification and/or energy efficiency scope items that further NYC's climate goals. REDi funding is dispersed as part of the normal requisitions process.

	• Solar Incentives and Tax Credits are available for solar and other clean energy investments. More information can be found here. · • Con Ed's Clean Heat program funds heat pumps for space heating and hot water. Note that Clean Heat may not be stacked with REDi. · • The joint-utility New York State Affordable Multifamily Energy Efficiency Program (AMEEP) has two prescriptive pathways that yield up to $2,000/ DU for basic energy efficiency • NYSERDA's FlexTech Program shares the cost to produce an objective, site-specific, and targeted study on how best to implement clean energy and/or energy efficiency technologies and can be used to offset the cost of IPNAs. • DEP's Water Reuse Program incentivizes water reuse and reduction • Multi-Family Water Assistance Program - DEP (nyc.gov) Projects can receive a $250 credit per residential unit on their water and sewer bill(s) for water use reductions. Program enrollment is limited. **NYC Department of Buildings Records:** The use of properties in this program must be consistent with an active Certificate of Occupancy, I-card or receive a Letter of No Objection from the NYC Department of Buildings. If the property has any use inconsistent with formal City records, then a condition of closing will be to develop a plan to legalize the inconsistent space by permanent loan conversion. This applies to residential space, parking space, commercial space, and/or community facility space. An expired Temporary Certificate of Occupancy (TCO) will prevent an Article XI Certificate of Eligibility (COE) from being issued until a new TCO or Permanent Certificate of Occupancy is issued.
Fair Housing and Accessibility Requirements	The Developer is required to comply with all applicable Federal, State, and local laws, orders, and regulations prohibiting housing discrimination. The Developer must also construct the project in compliance with all laws regarding accessibility for people with disabilities, including but not limited to Chapter 11 of the 2014 New York City Building Code, the federal Fair Housing Act, the Americans With Disability Act, and Section 504 of the Rehabilitation Act of 1973. Projects that restrict rentals based one or more protected classes, including but not limited to age or gender/gender identity, and do not have a Human Rights Law waiver issued by the New York State Division of Human Rights (SDHR) will be required to obtain an SDHR waiver prior to closing unless the project's rental restrictions come solely from certain government programs such as HUD's Section 202 or Section 811 programs. All rental restrictions based on protected classes must also be approved by HPD.
Marketing Requirements	All projects must be marketed according to HPD and HDC marketing guidelines. The developer must submit a marketing plan for agency review and approval. Where applicable, marketed projects will be required to use HPD's and HDC's lottery process. All projects are required to utilize an HPD approved Marketing Agent via HPD's RFQ. Further information is available here: https://www.nyc.gov/site/hpd/services-and-information/marketing-agent-rfq.page
Application Process	All borrowers must apply to HPD by submitting an application available here. Non-profits and M/WBEs interested in using the Down Payment Assistant Fund should also contact Restored Homes Development LLC at 212-584-8981 x10 or info@neighborhoodrestore.org with a summary of the property and underwriting template located on the program website.

	Borrowers not interested in or not eligible for the Down Payment Assistant Fund should submit a summary of the property and underwriting template located on the program website to HPD via email at hpdplp@hpd.nyc.gov. Borrowers must request feedback on a project prior to making an offer to a seller. To receive financing through the program, Borrower must submit an initial short form property needs assessment in a form and by a contractor acceptable to HPD, for final approval of the acquisition price. A formal IPNA will still be required in advance of HPD's loan closing. Additionally, Borrower must request a soft commitment letter, which will only be granted at HPD's discretion based on a review of the proposed project and the receipt of a property needs assessment and "as-is" appraisal.
HPD Contact	**Hollis Savage, Executive Director, Leveraged Preservation Programs** hpdplp@hpd.nyc.gov

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.