NYC 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 nonprofits and mission driven organizations to acquire and rehabilitate unregulated or rent stabilized housing for low- to moderate-income households.

Eligible Projects

Multiple dwellings with three or more units that are rent stabilized or unregulated. Properties that have current regulatory agreements with New York City, New York State, or the federal government restricting rents or household incomes are not eligible for the program.

Priority will be given to buildings across the city that are experiencing market pressure and/or that are in distress.

Eligible Borrowers

The program is open to not-for-profit and for-profit borrowers. 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, limited liability companies, and individual owners.

Eligible Uses

The acquisition and moderate or substantial rehabilitation of multiple dwellings.

HPD Loan Amount

Maximum HPD subsidy amounts are outlined below:

Underwritten Rents	Maximum Subsidy
Projects with average rents of 50% of AMI or less	Up to $180,000 per unit
Projects with average rents between 50% and 60% AMI	Up to $155,000 per unit
Projects with average rents between 60% and 70% AMI	Up to $130,000 per unit
Projects with average rents more than 70% of AMI	Up to $110,000 per unit

Higher per unit subsidy requests will be considered on a case by case basis for projects that are located in high cost neighborhoods, however HPD will impose additional regulatory restrictions.

HPD Loan Terms

- Loan term: 30 years.
- Overall Interest Rate: The long-term, monthly-compounding Applicable Federal Rate (AFR), with a minimum floor of 2.5% (compounding monthly).
- Paid Interest Rate: 1% per annum (plus 0.25% servicing fee during construction). 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.
- Amortization: Balloon may be allowable.
- Debt Service Coverage: 1.15 on all financing.
- Appraisals must be completed according to HPD's Approved Appraisal Guidelines
- Maximum Gross Rent Multiplier (GRM) for acquisition price: 12 (however HPD may consider higher GRM for projects in higher cost markets)
- Developer's Fee: Developer fee will be paid in increments based on project milestones. Up to half may be paid during the construction period with the balance payable upon permanent loan conversion.
    - Nonprofit: 8% of TDC less acquisition, reserves, and developer fee and 5% of

acquisition, with a net developer fee cap of $10,000/du
  - For-profit: 5% of TDC less developer fee and reserves
- Reserves:
  - Operating Reserve that is in 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 $250 per unit per year, increasing at 3% annually, paid from cash flow.
  - Reserves must remain with the project for the duration of the HPD regulatory term. If senior debt is satisfied prior to HPD regulatory term, HPD will assume control of the reserves.
- Contingency: 10% of hard costs; 5% of soft costs.
- Letter of credit or Payment and Performance Bond: 10% of hard costs excluding contingency.
- Cash Flow:
  - For Profit: developer receives 100%.
  - Nonprofit: developer receives 50% and 50% is held in City-controlled reserve

Borrower Cash Equity Requirements

For-profit developers: minimum of 10% of TDC less reserves and developer fee

Nonprofit developers: minimum of 2% of TDC less reserves, and developer fee

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 are waived for not-for-profit borrowers.)
- 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

Rent Setting

- For occupied units, 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.
- 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 a 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. However, no rents shall exceed a level affordable to households earning 120% AMI during the regulatory term.
- 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, with the maximum household income being 130% AMI.
- 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. In the event of financial hardship, HPD may reduce or waive the homeless requirement if deemed necessary.
- 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.

Real Estate Tax Benefits

Projects may be eligible for full or partial residential property tax exemption through the J-51 or Article XI tax benefit programs.

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

All projects must comply with HPD's Master Guide Specifications for Rehabilitation Projects and Scope of Work (July 2014): (http://www1.nyc.gov/site/hpd/developers/specifications-rehabilitation/master-guide-specifications-for-rehabilitation-projects.page).

Projects must complete an Integrated Physical Needs Assessment (IPNA) from a firm that has been pre-qualified by HDC:
http://nychdc.com/content/pdf/RFP/IPNA%20Pre-Qualified%20Firms%20List.pdf
Subject to funding availability, the following can be paid through the project development budget: IPNA base cost of up to $5,000 per project plus up to $250 per unit for the first 20 units in a project and up to $125 per unit for all remaining units.

All substantial rehab projects, as determined by HPD, must achieve Green Communities Certification. The Green Communities Criteria and Certification portal is available at www.greencommunitiesonline.org. Projects that include all three items within their scope of work are considered a Substantial Rehab:

- Replace heating system,
- Work in 75% of units including work within the kitchen and/or bathroom,
- Work on the building envelope, such as replacement and/or addition of insulation, replacement of windows, replacement and/or addition of roof insulation, new roof, or substantial roof repair.

More information can be found at:
http://www1.nyc.gov/site/hpd/developers/green-building.page

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.

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.

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.

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. Work to assist tenants aging in place may also be required by HPD and included in the scope of work.
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.
Application Process	Borrowers must apply to HPD by submitting a proposal for acquisition using the property summary and underwriting template located on the program website. To receive financing through the program, Borrower must request a soft commitment letter, which will only be granted at HPD discretion based on a review of the proposed project. HPD highly encourages Borrowers to request feedback on a project prior to making an offer to a seller.
HPD Contact	**Hollis Savage, Deputy 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.