Preserving Affordable Home Ownership: HDFC Coops and Our Community

December Shareholder Forum

Agenda

1. HPD ***explains*** its proposal to deepen your building's tax exemption in exchange for signing a new regulatory agreement with the City.

2. Shareholders ***ask*** questions so HPD can clarify items that are unclear.

3. HPD ***listens*** to your concerns, suggestions and perspectives on our efforts so we can refine and finalize our proposal.

HDFC Coops: The Basics

- All HDFC Coops have income restrictions for incoming shareholders spelled out in their Certificates of Incorporation.
- HPD approved the formation of 1,048 HDFC Coops comprised of 1,274 buildings.
- In most cases, HPD sold the building to the existing shareholders for a nominal price (usually $250 per unit).
- Only 207 Coops have Regulatory Agreements with HPD.
- HDFC coops are some of the only buildings to come from an HPD program that receive a tax exemption and don't necessarily have HPD oversight.

HDFC Coops: The Basics (continued).

- Most HDFC Coops that were formed via the City of New York have a tax exemption called the DAMP cap (a cap on assessed value).
  - Example: current cap (2016/2017) is $9,787. A 10 unit building will only pay taxes on $97,870 x tax rate (as opposed to taxes based on Assessed Value which is typically much higher).

- The DAMP Cap will expire in 2029. We now have an opportunity to extend your tax exemption while addressing concerns held by fellow shareholders, HPD and some elected officials.

Goals of our Proposal

The City has one goal: *Preserve the scarce resource of affordable homeownership in our neighborhoods.*

This proposal attempts to accomplish the goal by:

- Preserving affordability: introducing increased tax savings, asset restrictions, and caps on sales prices (in buildings that vote to sign the Agreement). We attempt to strike a balance between shareholders who want to recognize significant financial gains when selling their unit, and the corporate purpose of HDFCs which is to provide housing for low-income New Yorkers.
- Requiring sound property management rules to maintain financial and physical strength.
- Create more certainty for lenders. As the current tax benefit gets closer to its expiration date, shareholders increasingly will face difficulty obtaining financing.

Process

- After more than a year of conversations with a task force of more than a dozen interested non-profit stakeholder organizations, HPD has developed a proposed regulatory agreement.
- HPD is now discussing these changes more broadly including with interested shareholders, your Community Boards and your elected officials.
- In the coming months HPD will formally ask the City Council to consider our proposed new tax benefit.
- HPD will ask the Council to give HDFCs at least a year, after enactment, before HDFCs will be asked to make a decision to sign the agreement.

What is a Regulatory Agreement?

- A signed written agreement between your Cooperative, as represented by your Board of Directors, and a supervising Agency (in this case the New York City Department of Housing Preservation and Development).

- Regulatory agreements are often signed at the time of a qualifying event such as at the time of incorporation, when an existing tax exemption is expiring, when terms are changing or when a publicly-financed loan is provided.

- The Agreement explains both parties obligations and any applicable enforcement measures in the case of default.

Provisions of the Proposed Agreement

- New 40-year Agreement with a 40 year tax exemption.
  - The new tax exemption <u>will be more generous </u>than the current tax exemption (DAMP cap which expires in 2029).
  - A deeper exemption to account for added requirements and costs in the Regulatory Agreement.
  - Every eligible HDFC Coop – even high-value coops – would receive a tax benefit.
  - The lowest value coops, which experience high rates of financial distress, would pay no property taxes on the residential part of their building, and could use the savings to pay down delinquent tax bills or making building improvements.
  - Currently, an HDFC shareholder pays $1,270 ($106/month) in annual property taxes. HPD's proposed annual property taxes would be $520 ($43/month) per unit, **at maximum**. That means that shareholders would save at least $750 per year, or $63 per month, under the proposed exemption.

Comparison of Taxes under HPD's Proposed Exemption, Current DAMP cap, and Full Property Taxes

Building	Dwelling Units	Full Property Taxes	With DAMP Cap	With Proposed Exemption
419-21 East 157th Street HDFC (Bronx)	26	$23,182	$23,182	$0
1175-77-85 Anderson Avenue HDFC (Bronx)	116	$212,788	$137,502	$45,096
975 Summit Avenue HDFC (Bronx)	9	$9,976	$9,976	$1,781
1854 Monroe Avenue HDFC (Bronx)	26	$38,881	$32,805	$8,491
2114 Belmont Avenue HDFC (Bronx)	16	$20,247	$18,297	$3,999
2247 Hughes Avenue HDFC (Bronx)	8	$6,223	$6,223	$0
829 Southern Boulevard HDFC (Bronx)	49	$26,660	$26,660	$0
1001 Anderson Avenue HDFC (Bronx)	22	$39,611	$27,340	$9,143
1185 Fulton Avenue HDFC (Bronx)	42	$50,031	$50,031	$28,388
Trinity 3 in 1 HDFC (Bronx)	102	$157,204	$136,269	$34,666
803-05 East 182nd Street HDFC (Bronx)	44	$54,310	$54,310	$31,635

Provisions of the Proposed Agreement

- Requires routine 2% increases to maintenance fees (in order to keep up with expenses).
- To improve a building's overall financial health, the new Agreement will require a 30% flip tax. When units are sold, 30% of the profit from that sale will go to the building's reserve fund.
- HDFCs that sign this Agreement must employ the services of a third party monitor and some will need to employ a third party manager:
  - Manager's job is to help the coop operate effectively.
  - Monitor's job is to safeguard the sustainability and affordability of the building and to see that the building is adhering to Regulatory provisions.
  - HPD will publish guidelines for well-managed HDFCs. HDFCs matching the guidelines can apply for a waiver to the manager requirement.
- Additional reporting to HPD and Monitor to ensure buildings are in good health and are exercising good governance and abiding by regulatory restrictions.

Breakdown of Responsibilities: Monitor vs. Manager

- Monitor's job is to safeguard the sustainability and affordability of the building and to see that the building is adhering to Regulatory provisions.
- Manager's job is to help the coop operate effectively and efficiently.

Monitor	Manager
• Evaluates and approves every sale of shares, lease, and sublet. • Issues Stock Certificates. • Oversees and certifies annual elections. • Determines whether or not to impose a prohibited events fee, and will provide notice to noncompliant shareholder. • Approves, modifies, or rejects the training plan for the HDFC. • Approves reserve account withdrawals.	• Collects rent and maintenance. • Maintains current insurance policy. • Monitors and reviews the Books and Records. • Approves leases for any non-residential space. • Collects from a noncompliant shareholder a prohibited events fee.

Monitor and Manager, cont.

- The cost of the monitor depends on the size of the building and whether it has commercials, but the average is about $5,000/year (ranges from $3,500-$7,500).
- The cost of hiring a manager depends on the management company. Some have flat annual fees; some will charge a percentage of the rent/maintenance roll.
- Criteria for being approved for a waiver for the third party management requirement:
  - Must maintain 6 months' maintenance cash in reserve accounts.
  - Cannot owe more than one quarter in DEP or DOF payments.
  - Cannot be behind on any mortgage payments, if applicable.
  - Cannot have HPD or DOB code violations on more than 20% of dwelling units.
  - Must have at least an 85% rate of maintenance and rent collection for the previous year.
  - Must show proof of annual Board elections for past 3 years.
  - Must have submitted all documentation required by any applicable regulatory agreement to HPD.

Provisions of Regulatory Agreement: Income & Sales Restrictions

- In order to ensure HDFC Coops remain affordable, eligibility to purchase shares and become a <u>new</u> shareholder will be:
  - Household income at or below 120% of AMI ($108,720 for a family of 4 in 2016).
  - Household assets at or below 175% of AMI ($158,550).
  - Cannot own property within 100 miles of New York City.
- Requirements for <u>new and existing</u> shareholders:
  - Household must make the HDFC unit its primary residence.
  - Subletting restricted to no more than 18 months cumulative out of a five year period, and requires Board and Monitor approval.
  - Sales of units at prices affordable to 110% of AMI or below.
  - Cannot acquire new residential property within 100 miles of NYC.

Understanding Income Restrictions

Calculating income based on 120% AMI in 2016

Household Size	Maximum Gross Income
1 Person	$76,200
2 Persons	$87,000
3 Persons	$97,920
4 Persons	$108,720
5 persons	$117,480
6 Persons	$126,120
7 Persons	$134,850
8 Persons	$143,550

Maximum Sales Prices at 110% AMI

0 Bedroom (Studio)	1 Bedroom	2 Bedroom	3 Bedroom	4 Bedroom	5 Bedroom
$286,296	$347,636	$412,022	$476,712	$539,880	$601,830

- Resale prices set affordable to a maximum of 110% of AMI.
- If a Board votes to adopt a lower resale price cap to maintain deeper affordability, HPD will design a customized schedule of sales.
- Resale prices will be indexed annually.

Option to Carve-Out of Resale Prices

- Only in buildings where there have been high-priced sales, the owners of the high-priced units may opt to have their unit "carved out" of the resale price restriction and asset cap for prospective buyers of their unit.
- The purpose of this provision is two-fold:
  - To ensure shareholders who bought in at a high-price (affordable to 110% of AMI for year unit was sold) are not unfairly penalized at the time they wish to sell.
  - To encourage these shareholders to not work to block the rest of the building from signing the Regulatory Agreement.
- No more than 1/3 of units in a building may be carved out.
- Subsequent purchasers of "carved-out units" would still have to have incomes at or below 165% of AMI as the HDFC Coop is still subject to the statutes in Article XI of the Private Finance Housing Law.

Preserving Affordable Housing

- HPD wants to be proactive in helping preserve this limited and crucial affordable housing stock; the proposed Regulatory Agreement will be instrumental to achieving this goal.
- This Agreement creates needed insight into how buildings are performing, enabling HPD to be able to proactively work with struggling properties and help resolve problems before it's too late.
- The Agreement provides more ways for HPD to identify problems and intervene before in-rem foreclosure becomes the only solution.
- We believe this agreement strikes the right balance between many competing interests, and will result in many Coop HDFC signing onto the new regulatory agreement.

Questions?

Understanding Income Restrictions

- **There are 3 types of income caps for HDFC Coops:**
  - 1) Coops with up to 165% AMI.
  - 2) Coops with income restrictions subject to Section 576 of the Private Housing Finance Law.
  - 3) Coops sold with a 30 year Regulatory Agreement subject to 120% AMI.

Calculating income based on Section 576 PHFL:

- 1-2 person household: 6 x (monthly maintenance + monthly utilities) x 12.
- 3+ person household: 7 x (monthly maintenance + monthly utilities) x 12.

Assuming $150 for monthly utilities and $750 for maintenance:

- 1-2 person household: 6 x(150 + 750) x 12 = **$64,800** maximum income for household.
- 3+ person household: 7 x(150 + 750) x 12 = **$75,600** maximum income.