

December 16, 2014

Tina Kim, Deputy Comptroller
Office of the State Comptroller
Division of State Government Accountability
123 William Street – 21st Floor
New York, New York 10038

**Re: Status Report on the Audit of the Administration of the Article 8-A Loan Program
Audit Number: 2013-N-4**

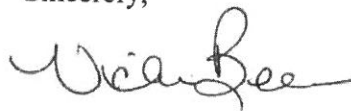
Dear Ms. Kim:

Attached please find the Department of Housing Preservation and Development's status report on the recommendations contained in your audit of the Article 8-A Loan Program.

If you have any additional questions, please call Assistant Commissioner Josh Cucchiaro at 212-863-6610.

Thank you.

Sincerely,



Vicki Been



AUDIT RESPONSE
OFFICE OF THE NEW YORK STATE COMPTROLLER
NEW YORK CITY DEPARTMENT OF HOUSING PRESERVATION AND DEVELOPMENT
STATUS REPORT ON THE AUDIT OF ADMINISTRATION OF THE ARTICLE 8A PROGRAM
REPORT 2013-N-4

Audit Finding	Audit Recommendation and Agency Response	Corrective Action Plan
<p>Finding</p> <p>Compliance with Program Eligibility Requirements</p>	<p>1. Recommendation:</p> <p>Enhance HPD's Rules and Regulations to require independent confirmation of owner affidavits to ensure that only eligible applicants receive loans.</p>	<p>1. Corrective Action:</p> <p>Loan eligibility is determined based on several factors besides the owner's affidavit of inability to obtain private financing, including the project's financial condition and underwriting. Review of the loan underwriting will indicate whether a project could financially support private debt. If a project is able to support a fully-amortizing loan at 3% interest, the project manager will investigate whether the project is able to support private debt. If the borrower is able to leverage some private debt, the borrower will be encouraged to do so and HPD may consider funding any gap through one of its other rehabilitation financing programs. Projects that cannot support a higher interest rate or full amortization at a higher interest rate are not able to support private debt. Further investigation into the ability of these projects to leverage private financing is not warranted.</p> <p>Written procedures and guidelines for determining loan interest rates will help ensure that only eligible applicants receive loans pursuant to Article 8A of the Private Housing Finance Law.</p> <p>Implementation Date: 12/15/14</p>
<p>Finding</p> <p>Unsupported Interest Rates</p>	<p>2. Recommendation:</p> <p>Establish written procedures and guidelines for determining loan interest rates. Document the justification for any interest determinations below 3%.</p>	<p>2. Corrective Action:</p> <p>The program term sheet identifies loan financing terms and underwriting criteria, and the credit memorandum for each project includes an explanation of how the interest rate and loan terms were determined. Beginning in July of 2014, HPD revised the narrative section of the credit memorandum in order to clarify the rationale for the interest rate and other loan terms. A memorandum noting details of this change is attached.</p> <p>Additionally, as mentioned above, written procedures and guidelines for determining loan interest rates will help ensure that only eligible applicants receive loans pursuant to Article 8A of the Private Housing Finance Law.</p> <p>Implementation Date: 12/15/14</p>

AUDIT RESPONSE
OFFICE OF THE NEW YORK STATE COMPTROLLER
NEW YORK CITY DEPARTMENT OF HOUSING PRESERVATION AND DEVELOPMENT
STATUS REPORT ON THE AUDIT OF ADMINISTRATION OF THE ARTICLE 8A PROGRAM
REPORT 2013-N-4

Audit Finding	Audit Recommendation and Agency Response	Corrective Action Plan
<p>Finding</p> <p>Violations and Repairs</p>	<p>3. Recommendation:</p> <p>Establish written guidelines for building inspections that would ensure timely project compliance with VRAs and HRMAs.</p>	<p>3. Corrective Action:</p> <p>As of July 2014, the Article 8A Loan Program discontinued use of the Voluntary Repair Agreement (VRA). In lieu of the VRA, Dismissal Request Forms must be filed for violations listed against projects prior to closing. There must be substantial compliance with outstanding HPD violations prior to final loan payment. The Dismissal Request Forms are utilized in accordance with guidelines and requirements set up by HPD's Division of Code Enforcement. The Housing Repair and Maintenance Agreement (HRMA) will continue to be utilized and reviewed for full compliance prior to final payment on the project.</p> <p>Implementation Date: 7/1/14</p>
<p>Finding</p> <p>Preferential Treatment of a Building Owner</p>	<p>4. Recommendation:</p> <p>Investigate the circumstances surrounding the apparent preferential treatment afforded Quadrant as detailed in the report.</p>	<p>4. Corrective Action:</p> <p>No further investigation necessary.</p> <p>Implementation Date: N/A</p>



**Department of
Housing Preservation
& Development**

nyc.gov/hpd

Office of Development

Departmental Memorandum

To: Kimberly Darga, Assistant Commissioner - Preservation Finance
From: Raveen Seaton, Director of Rehabilitation Loan Programs
CC: Sandro Martorella, Deputy Director 8A Loan Program
Date: December 9, 2014
Re: Interest Rate Determination for Article 8a Loan Program

The program Term Sheet identifies the criteria and guidelines for underwriting loans through the Article 8a Loan Program, including debt coverage ratio and income to expense ratio requirements. While these requirements have not changed, effective December 15, 2014, the Project Financing section of the Credit Memorandum for each project now includes an explanation of how the interest rate was determined.

The detailed explanation of how the interest rate was derived will include the following information. An example of this explanation in the credit memorandum is noted on the following page.

- The combined debt service coverage ratio for the project.
- The overall expense coverage ratio for the project.
- An affirmation statement justifying the use of the given interest rate, including any other factors used to determine the interest rate and loan terms.

The calculation of the combined debt service coverage ratio and overall expense coverage ratio is provided in the Income and Expense Statement attached to the credit memorandum.

The aforementioned information will clarify the rationale for determining the interest rate for any loan made through the Article 8A Loan Program.



Example of Detailed Explanation of Interest Rate

PROJECT FINANCING

Uses:

Hard Costs:	\$	
Maintenance Costs:	\$	
Contingency:	\$	(__% of Hard Cost)
Soft Costs:	\$	
Total Development Cost:	\$	

Sources:

HPD Loan A (City Capital):	\$
HPD Loan B (Reso A):	\$
Owner Equity/HRA:	\$
Owner Equity/Non-HRA:	\$

The HPD loans totaling \$_____ (\$_____/residential unit) will finance the hard costs, hard cost contingency, and soft costs. Owner equity will finance the HRA work. There are no deviations from the term sheet.

HPD Loan A (City Capital): \$_____, including contingency (\$_____/unit)

Statutory Authority: Article 8A

Mortgage Term: 30 years

Interest Rate: 1%.

Amortization Term: 29 year amortization, with the 1st year being interest only

Expense Coverage Ratio (ECR): 1.05

Combined Debt Coverage Ratio (DSC): 1.42

Based on the income to expense coverage ratio of 1.05, a 1% interest rate is feasible.

HPD Loan B (Reso A funds): \$_____ (\$_____/unit)

Statutory Authority: Article 8A

Term: 30 years

Interest Rate: 0%.

Amortization Term: 0, evaporating/repayable balloon

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