

## Best Practices in Multifamily Lending

- Require **minimum Debt Service Coverage Ratios of 1.2 or more on rent-stabilized buildings**. Consider only **current in-place rents (including preferential rents) and realistic maintenance costs** when determining the net operating income for the property. Speculative underwriting that is based on high rates of turnover of rent-regulated tenants and rent increases made by removing preferential rents, charging Major Capital Improvements and Individual Capital Improvements provide major incentives for tenant harassment and displacement. The set of best practices overall are meant to eliminate this practice. Additionally, **discourage additional debt without getting approval from the bank** prior to doing so in order to keep the building at a debt service coverage of >1.2.
- Ensure **realistic appraisal** values, based on **current rents, building conditions, and maintenance costs**.
- **Consult multiple sources to evaluate the record of landlords and property managers**, including their record of managing properties that are not within the bank's portfolio:
  - **Violations and liens**
  - **Lists currently used by regulators, HPD distressed asset List and the Building Indicator Project (BIP) Database.**
  - **Additional lists and indicators: "Worst Landlord List," landlords under investigation by government agencies (e.g., the Attorney General), Department of Buildings (DOB) violations, and Department of Homeless Services (DHS) violations.**
  - **Media reports based on Internet searches and input from tenant organizers** to determine whether borrowers have **raised concerns with tenants** or have **reputational issues** that should be taken into account in the underwriting process.
  - **Additional indicators** as they become available in the future, especially ones that **demonstrate harassment, displacement, and a loss of rent-regulated units.**
- Hold **regular information and engagement sessions** with tenant organizers and tenant leaders to identify problem landlords and practices.
- **Hire point person for the bank who will visit buildings and is available to respond to and meet with tenants.**
- **In cases where the loan has already been made, work with all parties – borrower, community organizations and the City – to address the issues in the building.**
- In cases where the **loan is being considered**, take similar steps to assess the situation and, when problems are confirmed, will **address the situation proactively, such as through requiring building improvements, or decline to make the loan.**
- Apply the same standards for collateral loans (*i.e.*, loans using multifamily buildings as collateral) and loans made through a mortgage broker.