Toledano Tenants Coalition's (TTC) Demands to Signature Bank for Responsible Lending

Signature Bank Response

Signature Bank's lending to multifamily buildings in New York City plays an important role in maintaining affordable rentals in low-to-moderate income neighborhoods. In 2016, the Bank closed $2.9 billion in multifamily loans in LMI census tracts. Over 13,000 of the 20,000 units contained in those buildings were determined to be "affordable" based on HUD 2016 Fair Market Rentals by Unit Bedrooms data, the same data used by the FDIC and NYS DFS when they conduct their CRA examinations. These buildings contain 2,500 Section 8 units.

As an example, in 2016, Signature Bank's $135 Million loan enabled the Riverton Square development in Harlem to transition to new owners and maintain stabilized rents for 30 years for 975 out of 1,229 tenants.

Our portfolio includes many properties that were built in the early part of the 20th century and are now close to 100 years old. Our borrowers frequently acquire these properties "as is" in distressed condition, where the current owner does not have the capital or expertise to invest in improvements required under the building codes or upgrade deteriorating building systems. The Bank's lending to new owner/operators enables much-needed building improvements which positively impact the quality of life for tenants of those properties.

Banks are regulated and held to public accountability for their lending, but non-bank lenders (which include equity firms, insurance companies and pension funds) are not. UNHP's 2016 Report [1] to bank lenders revealed that 19% of mortgages to buildings with scores of 800 or more were made by "Non-bank Entities." Fifty-four percent (54%) had no mortgages. For all buildings, 48% of the buildings sold in 2014-2015 either had no mortgage recorded (indicating a cash transaction) or the mortgage is held by a non-bank lender. While banks can be held accountable by regulatory agencies and community groups, non-mortgaged buildings are only subject to oversight from city and state housing agencies or legal actions brought by tenants.

The most recent BIP Report (Q4 2016) identified 37 Signature Bank properties (1.51%) with scores of 800 or more, out of 2,453 properties on the list. This compares with 42 properties out of 2,391 (1.76%) on the previous BIP List. The most recent HPD report (Q3 2016) identified 128 Signature Bank properties out of 2,391 (5.35%). Thirteen (13) loans overlap the BIP and HPD lists.

Signature Bank is a responsible multi-family lender. As a regulated entity, our loan portfolio is reviewed by federal and state examiners for both CRA eligibility and risk. Our lending is predicated on sound banking practices and adherence to NYS and federal banking laws and regulations. Our most recent NYS and FDIC CRA Performance Evaluations found no issues that would lead to a need to write or implement a CRA plan. Our annual CRA and HMDA Disclosure Reports are available for public review online and at our headquarters location.

In that context, we are responding, as requested, to the demands presented by the Toledano Tenants Coalition during our meeting on Friday, February 3, 2017.

TTC: Signature commits to the following standards of lending for all loans that are backed by multifamily housing in NY State (mortgages, term loans, collateralizations, etc.):

Require minimum Debt Service Coverage Ratios of 1.2 on rent-stabilized buildings and allow only current in-place rents to be considered in determining the

[1] University Neighborhood Housing Program, 2016 Multifamily Assistance Center and Building Indicator Project Lender Meeting, February 23, 2016.

net operating income for the property, with no credit for any investor's plans to increase rents over time. Underwriters will only consider current rents and realistic maintenance costs.

SB Response: Signature Bank will not commit to a standard DSCR of 1.2:1 on its mortgage and term loan lending. We underwrite our loans based on a number of criteria, including our underwriters' and lenders' many years' experience in successfully evaluating and making commercial real estate loans. Our borrowers frequently buy rent regulated buildings in distressed condition, with vacancies and deferred maintenance issues. Our building specific underwriting offers the property owner the necessary capital to provide tenants with improved and enhanced building conditions. Most own many other properties financed by us. Our experience with that borrower gives us the confidence the loan will perform. This allows us the flexibility to structure a loan best suited to the borrower's unique situation. That is our business model and it has been successful for us and our clients. The Debt Service Coverage Ratio at 97 2nd Avenue was 1.3:1 at the time of underwriting.

TTC: On the matter of preferential rents, underwrite multifamily loans based on actual rents being collected from tenants. In the case of "preferential rents" under New York's rent regulation laws, Signature will underwrite to these rents and not the higher registered rents.

SB Response: We have not done an analysis of how many rent rolls in our portfolio indicate preferential rents. We surmise it is a small percentage, since most of our mortgages are on older, rent-stabilized buildings and have 95-100% occupancy rates when the loan is closed. The demand is so high for apartments in these buildings; there is little need for the landlord to offer reduced or preferential rents.

Signature Bank underwrites each loan with the expectation it will be satisfactorily repaid through principal and interest. Unrealistically inflating the cash flow of the building to make the mortgage numbers work increases the risk that the borrower will have difficulty making loan payments. Our underwriting prudently examines the borrower's ability to repay the loan, based upon the building's cash flow, our experience with and knowledge of the borrower, and the market where the building is located.

TTC: Will not consider ancillary income, such as antenna income, in underwriting loans. Estimates of property maintenance costs are to be confirmed by the Member Appraisal Institute (MAI), peer-reviewed appraisers who assess collateral property values to ensure that they support the quality of the bank's loan portfolio.

SB Response: All loans require an independent, 3rd party appraisal as part of due diligence and FDIC regulations. Factors such a building condition, vacancy rate, comparable rents or sales in the area, and building operating costs are factored into that appraisal.

The Bank includes all recurring income streams as part of its cash flow analysis.

TTC: Consult multiple different sources to assess the property management records of applicants for its multifamily loans, taking into account violation counts for buildings owned by the principals of such applicants and including for properties that are not within its portfolio.

SB Response: Prior to approving an application for a multi-family mortgage, the Commercial Real Estate Banking Team (CRE) conducts due diligence on the property and the borrower. Part of this due diligence includes conducting an online search of the building property records with municipal housing and/or building departments to identify any issues. These may include tax liens, unpaid tax and water bills, failure to register the building with the appropriate agency and building code violations, NYC Health Code and Fire Department violations.

If the mortgage underwriter identifies existing violations following due diligence, s/he must use their discretion to ensure that the new owner will correct significant violations in a timely manner.

This is not only to protect the health and safety of the tenants, but to protect the Bank's asset as well; a building subject to liens and penalties undermines the safety and soundness of the bank loan. Therefore, it is common practice for the mortgagor to execute an *"Undertaking Agreement"* when a building has a significant number of B & C Violations. This stipulation requires the borrower to correct and cure the designated violations within a proscribed period of time, depending on the severity of the violations in question. Often, an escrow is established and held by the Bank and only released to the borrower once the repairs have been made and the violations are removed from the records.

TTC: As a condition to making credit recommendations, underwriters will review authoritative housing quality records, including the HPD List and the Building Indicator Project (BIP) List (together with other such lists, the *"Housing Quality Records").* Through inspections of collateral properties and reference to these housing quality measures, take reasonable precautions to ensure that loans are not made to borrowers that have problematic building maintenance records. Those who present unacceptable scores require further investigation and, unless strong evidence exists indicating the owner is responsible and will address those issues, the credit request will be declined.

SB Response: The BIP and HPD Lists are distributed for review to relevant staff in the Community Development Banking Team and Commercial Real Estate Banking Team immediately upon their release. A landlord or property that consistently appears on either list is a red flag that will be taken into consideration for future lending to that entity. However, we have also verified with HPD that once a building is added to the Proactive Preservation Initiative (PPI) List, the building will remain on this "watch list" permanently regardless of the condition of the building. There is no way for the owner to have the building removed from the list.

1. BIP and HPD reports are received by the Community Development Department and transmitted to the Bank's senior management (Vice Chair, COO and Chief Credit Officer/EVP) as well as senior staff engaged in multi-family lending.
2. Properties with BIP scores over 800 and/or appearing on the HPD list are reviewed by the Commercial Real Estate Loan Portfolio Manager, who is a Senior Vice President with discretionary responsibility. After reviewing the reports, he or his staff will generally proceed as follows:
    - They will contact the mortgagor and inquire if s/he is aware of the violations
    - If the answer is affirmative, the Bank will ask what actions the mortgagor has taken to correct the problems
    - If there is Undertaking Agreement, the mortgagor will be advised of his/her obligations under the agreement and strongly encouraged to complete the necessary work.
    - The mortgagee will be asked to submit written evidence (e.g. certification from the supervising municipal agency) that the work has been completed to satisfaction.
    - If, as is often the case, the mortgagor asserts that the work has been done, but s/he has not filed the required paperwork with the municipal agency, the Bank will again strongly encourage the borrower to complete this necessary step and submit documentation to the Bank.

We are not familiar with a "Housing Quality Records" list.

TTC: Take into consideration the "Worst Landlord List", landlords under investigation by government agencies (e.g., the Attorney General), DOB violations, and other similar reference sources.

SB Response: Signature Bank reviews published lists to determine if any of our borrowers appear on the list(s). If they do, we use our established protocol (described above) to review the issues identified by the list. Because a building is held as collateral against a mortgage loan, the condition of the collateral is materially important to the safety and soundness of the loan. If a landlord is consistently cited for poorly maintaining his or her property, and our due diligence confirms that to be true, we do not provide additional financing to that owner.

While Signature Bank typically “knows’ their borrowers due to long-term lending relationships, there may be borrowers who are unresponsive to the Bank’s efforts to encourage them to clear building violations. In that instance, the Bank has two options:

- To enforce the terms of an Undertaking Agreement, if one is in place, and withhold mortgage funds
- To refuse to conduct further business with the borrower

TTC: Take into consideration media reports based on Internet searches and input from tenant organizers to determine whether borrowers have reputational issues that should be taken into account in the underwriting process.

SB Response: The Community Development staff regularly reviews community newspapers, community housing blog sites and other publications to try and identify problems associated with our borrowers. The Bank also utilizes a clipping service to monitor references to Signature Bank in the press. When we do see a story that points to one of our borrowers, we use our established protocol to inform the Commercial Real Estate Department, which then initiates a review and response.

TTC: Evaluate and consider using additional Housing Quality Records as they become available in the future, especially ones that demonstrate harassment, displacement, and a loss of rent-regulated units.

SB Response: Signature Bank uses the tools currently available to us to evaluate potential loans. If another tool becomes available in the future, we will consider using it in our analysis.

TTC: Hold regular information and engagement sessions with tenant organizers and tenant leaders to identify problem landlords and practices, including questionable renovation/construction records and SRO landlords.

SB Response: When the Bank is approached by tenant organizers or other sources about problems with one of our borrowers, we make our best effort to respond in a timely fashion. We remain open to hearing about the concerns of tenants in buildings mortgaged by the Bank, and working with our borrowers to ameliorate documented conditions.

TTC: In cases where the loan has already been made, work with all parties — borrower, community organizations and the City of New York – 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.

Consider measures to discourage borrowers from taking out additional debt without properly notifying and getting approval from the bank prior to doing so.

SB Response: The following requirements/documents are typical of loans that we make:

- A Real Estate Tax escrow account for real estate tax payments
- A satisfactory Independent Appraisal indicating an acceptable loan to value (LTV)
- A satisfactory environmental report
- Title Insurance in the minimum amount of the loan, along with a survey
- Municipal violation search satisfactory to the Bank
- Prohibition of Additional Financing
- Documentation of fully executed ownership, management, leasing and all other service and third party agreements affecting the property

- Annually updated rent roll and Income & Expense statement
- Casualty and Liability Insurance satisfactory to the Bank that names the Bank as Mortgagee and additional insured
- Documentation of Operating and Tenant Security Accounts
- Satisfactory Credit Reports on all borrowers
- A clear Office of Foreign Assets Control (OFAC) search
- LexisNexis Search including criminal background check

If a borrower meets all thresholds for these criteria and the loan is approved, then we will use protocols discussed in other responses to deal with problems as they arise.

TTC: In the cases where the bank makes a collateral loan (loan using multifamily buildings as collateral), the original lender will be held to the same standards. This will be communicated to all of its clients to ensure they fully understand this and adhere to them.

SB Response: As we reported in the meeting, the loan to Madison Realty Capital is not typical for Signature Bank. We have selectively done a few short term commercial loans secured by real estate for longstanding clients. Given the circumstances of the Toledano portfolio, however, we will make an effort to “know our collateral” better for any similar loans we do in the future.

TTC: In the cases where the bank uses a mortgage loan broker, the brokers will be held to the same standards.

SB Response: Signature Bank does not pay mortgage brokers to refer deals. The broker is engaged and compensated by the property owner seeking the loan.

TTC: Take proactive steps to identify and deal with landlords whose property maintenance records raise questions, requiring that they address problems outside of the proposed lending relationship with the bank before it moves forward on an application. The bank will decline proposed applications where prospective borrowers fail to meet these standards and maintain these policies and practices going forward.

SB Response: This has been addressed in our previous responses. During the past decade, Signature Bank has provided billions of dollars in financing on thousands of apartments in New York City. The Bank has a fiduciary responsibility to our shareholder to originate prudent loans to credit worthy borrowers. We also impose on ourselves a moral responsibility to provide financing on multi-family building which results in the maintaining and creation of good quality affordable housing. All of our loans are maintained in our portfolio. Unlike the CMBS market, Fannie Mae, and Freddie Mac, we do not sell the risk to third parties. Therefore, the quality of our collateral and borrower is of the utmost importance to us.