



STATE OF NEW YORK
BANKING DEPARTMENT
ONE STATE STREET
NEW YORK, NY 10004-1417

DIANA L. TAYLOR
Superintendent of Banks

April 6, 2006

TO the CEO of the Institution Addressed:

Re: Best Practices of Multi-Family Lenders

As many of you are aware, there has been concern expressed regarding the condition of certain multi-family buildings in New York City. While it is clear that the primary responsibility for the condition of the building lies with the owner of the building and that the primary responsibility to enforce the Housing Code lies with the City's Department of Housing Preservation and Development (HPD), a number of lenders have voluntarily strengthened their procedures to help ensure that buildings are kept in good repair. We applaud those efforts and want to share them with you. It is our hope that more lenders will develop similar procedures to help ensure the quality of the buildings on which they lend.

Some of these best practices include the following:

- a. Appointing a senior management person at the bank to monitor issues regarding the maintenance of properties mortgaged to the bank;
- b. Reviewing complaints that community and tenant groups have submitted to the proper governmental body and the building's management;
- c. Advising the building owner, in writing, of the complaint(s), requesting that the bank be advised of what steps are being taken to correct the complaints and the timetable for repairs and advising the owner that the mortgage documents contain a clause requiring proper maintenance of the building;
- d. Evaluating HPD violation notices on other properties owned by the potential borrower;
- e. Evaluating management capacity of the potential borrower;
- f. Completing property inspections prior to lending, utilizing HPD's building inspections surveys;

- g. Depending on circumstances, require repairs of violations or poor conditions prior to a loan closing, or escrowing repair funds in the case of post closing.
- h. Conducting periodic building inspections to help mitigate the risk profile of a loan and its collateral; and
- i. Working with community groups and tenant associations to meet with owners to resolve building issues.

We are confident that, based on your experience as multi-family lenders, as well as your desire to help keep our communities strong and vibrant, you will seriously consider implementing these policies and procedures if you have not already done so.

Should you wish to discuss this further, please contact Deputy Superintendent Edward Kramer at 212-709-3560.

Sincerely,

A handwritten signature in black ink that reads "Diana L. Taylor". The signature is written in a cursive, flowing style.

Diana L. Taylor
Superintendent of Banks