

# STATE OF NEW YORK

9041--A

## IN ASSEMBLY

January 10, 2020

Introduced by M. of A. EPSTEIN, CRUZ, RICHARDSON, SIMON, L. ROSENTHAL, D'URSO, MOSLEY, REYES, GLICK, BARRON, SIMOTAS, GOTTFRIED, JAFFEE, CARROLL -- Multi-Sponsored by -- M. of A. COOK, FRONTUS, LENTOL -- read once and referred to the Committee on Judiciary -- committee discharged, bill amended, ordered reprinted as amended and recommitted to said committee

AN ACT to amend the real property law and the uniform commercial code, in relation to requiring the recording of mezzanine debt and preferred equity investments; and to amend the tax law, in relation to including mezzanine debt in the mortgage recording tax

The People of the State of New York, represented in Senate and Assembly, do enact as follows:

1 Section 1. The real property law is amended by adding a new section  
2 291-k to read as follows:

3 § 291-k. Recording of mezzanine debt and preferred equity investments.

4 1. Whenever a mortgage instrument is recorded in the office of the  
5 recording officer of any county, any mezzanine debt or preferred equity  
6 investment related to the real property upon which the mortgage instru-  
7 ment is filed shall also be recorded with such mortgage instrument. For  
8 the purposes of this section, "mezzanine debt" and "preferred equity  
9 investments" shall mean debt carried by a borrower that may be subordi-  
10 nate to the primary lien and is senior to the common shares of an entity  
11 or the borrower's equity and reported as assets for the purposes of  
12 financing such primary lien. This shall include non-traditional financ-  
13 ing techniques such as a direct or indirect investment by a financing  
14 source in an entity that owns the equality interests of the underlying  
15 mortgage where the financing source has special rights or preferred  
16 rights such as: (i) the right to receive a special or preferred rate of  
17 return on its capital investment; and (ii) the right to an accelerated  
18 repayment of the investors capital contribution.

19 2. This section shall apply to both mezzanine debt and preferred equi-  
20 ty investments if both used by the borrower or mortgagor, or either  
21 mezzanine debt or preferred debt, if either is used by the borrower or  
22 mortgagor.

EXPLANATION--Matter in italics (underscored) is new; matter in brackets  
[-] is old law to be omitted.

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1 3. For purposes of this section, "mezzanine debt" and "preferred equi-  
2 ty investments" shall not include debt on cooperative or common shares  
3 of a residential dwelling where the unit owner of a cooperative apart-  
4 ment is a shareholder of the ownership entity, has exclusive occupancy  
5 of such dwelling unit, and has established and delimited rights under a  
6 proprietary lease.

7 4. No remedy otherwise available to a secured party under article nine  
8 of the uniform commercial code shall be available to enforce a security  
9 agreement pertaining to mezzanine debt financing and/or preferred equity  
10 investments in relation to real property upon which a mortgage instru-  
11 ment is filed that is evidenced by a financing statement, unless that  
12 financing statement is filed and the tax imposed pursuant to the author-  
13 ity of subdivision four of section two hundred fifty-three of the tax  
14 law, has been paid.

15 § 2. Section 9-601 of the uniform commercial code is amended by adding  
16 a new subsection (h) to read as follows:

17 (h) Security interest perfected by financing statement. 1. Notwith-  
18 standing any provision of law to the contrary, a security interest in  
19 mezzanine debt and/or preferred equity investments related to the real  
20 property upon which a mortgage instrument is filed, may only be  
21 perfected by the filing of a financing statement under subpart 1 of part  
22 5 of this article and only after the payment of any taxes due pursuant  
23 to section two hundred ninety-one-k of the real property law.

24 2. For purposes of this section, the terms "mezzanine debt" and  
25 "preferred equity investments" shall have the same meaning as provided  
26 in section two hundred ninety-one-k of the real property law.

27 3. This section shall not be applicable to any debt on cooperative or  
28 common shares of a residential dwelling where the unit owner of a coop-  
29 erative apartment is a shareholder of the ownership entity, has exclu-  
30 sive occupancy of such dwelling unit, and has established and delimited  
31 rights under a proprietary lease.

32 § 3. Paragraph (a) of subdivision 2 of section 250 of the tax law, as  
33 amended by section 1 of part Q of chapter 60 of the laws of 2004, is  
34 amended to read as follows:

35 (a) (1) The term "mortgage" as used in this article includes every  
36 mortgage or deed of trust which imposes a lien on or affects the title  
37 to real property, notwithstanding that such property may form a part of  
38 the security for the debt or debts secured thereby. An assignment of  
39 rents to accrue from tenancies, subtenancies, leases or subleases of  
40 real property, within any city in the state having a population of one  
41 million or more, given as security for an indebtedness, shall be deemed  
42 a mortgage of real property for purposes of this article. Executory  
43 contracts for the sale of real property under which the vendee has or is  
44 entitled to possession shall be deemed to be mortgages for the purposes  
45 of this article and shall be taxable at the amount unpaid on such  
46 contracts. A contract or agreement by which the indebtedness secured by  
47 any mortgage is increased or added to, shall be deemed a mortgage of  
48 real property for the purpose of this article, and shall be taxable as  
49 such upon the amount of such increase or addition.

50 (2) Notwithstanding anything in this section or section two hundred  
51 fifty-five of this article to the contrary, a contract or agreement  
52 whereby the proceeds of any indebtedness secured by a mortgage of real  
53 property in any city in the state having a population of one million or  
54 more are used to reduce all or any part of a mortgagee's equity interest  
55 in a wraparound or similar mortgage of such real property shall be  
56 deemed a mortgage of real property for the purposes of this article and

1 shall be taxable as such to the extent of the amount of such proceeds so  
2 used, without regard to whether the aggregate amount of indebtedness  
3 secured by mortgages of such real property is increased or added to.

4 (3) Notwithstanding any provision to the contrary in this section or  
5 section two hundred fifty-five of this article, "mezzanine debt" and  
6 "preferred equity investments" as such terms are defined in subdivision  
7 four of this section, shall be taxable and shall apply to taxes in  
8 subdivisions one, one-a and two of section two hundred fifty-three of  
9 this article, but shall not apply to any other taxes in this article on  
10 or after the effective date of this subparagraph.

11 § 4. Section 250 of the tax law is amended by adding a new subdivi-  
12 sion 4 to read as follows:

13 4. The term "mezzanine debt" and "preferred ability investment" shall  
14 have the same meaning as provided in section 291-k of the real property  
15 law.

16 § 5. Section 253 of the tax law as amended by adding a new subdivi-  
17 sion 4 to read as follows:

18 4. (a) A tax, measured by the amount of principal debtor obligation  
19 which is under any contingency may be secured at the date of the  
20 execution thereof, or at any time thereafter, by a security agreement  
21 pertaining to mezzanine debt financing and/or preferred equity invest-  
22 ments in relation to real property upon which a mortgage instrument is  
23 filed, as evidenced by a financing statement, is imposed on the filing  
24 of the financing statement.

25 (b) The rate and incidence of the tax shall be determined pursuant to  
26 this section.

27 (c) Except as otherwise provided in this subdivision, all the  
28 Provisions of this article relating to or applicable to the adminis-  
29 tration, collection, determination and distribution of the tax imposed  
30 by this section shall apply to the tax imposed under the authority of  
31 this subdivision with such modification as may be necessary to adapt  
32 such language to the tax so authorized. Any reference to a mortgage will  
33 be deemed to be a reference to a financing statement that evidences a  
34 security agreement. Such provisions shall apply with the same force and  
35 effect as if those provisions had been set forth in this subdivision  
36 except to the extent that any provision is either inconsistent with a  
37 provision of this subdivision or not relevant to the tax authorized by  
38 this subdivision.

39 (d) No remedy otherwise available to a secured party under article  
40 nine of the uniform commercial code shall be available to enforce a  
41 security agreement pertaining to mezzanine debt financing and/or  
42 preferred equity investments in relation to real property upon which a  
43 mortgage instrument is filed that is evidenced by a financing statement,  
44 unless that financing statement is filed and the tax imposed pursuant to  
45 the authority of this subdivision has been paid.

46 (e) For the purposes of this subdivision:

47 (1) "mezzanine debt" and "preferred equity investments" shall have the  
48 same meaning as provided in section two hundred ninety-one-k of the real  
49 property law.

50 (2) "financing statement" means a record or records composed of an  
51 initial financing statement and any filed record relating to the initial  
52 financing statement.

53 (3) "security agreement" means an agreement that creates or provides  
54 for a security interest.

55 (f) Counties or cities authorized under this article to impose a tax  
56 are authorized and empowered to adopt and amend local laws to impose in

1 such county or city a tax on the filing of financing statements pertain-  
2 ing to mezzanine debt financing and/or preferred equity investments in  
3 relation to real property upon which a mortgage instrument is filed. Any  
4 tax that has been imposed by a county or city under the authority of  
5 this article shall be deemed to include the authority to impose and  
6 collect the tax on the recording of a financing statement pertaining to  
7 mezzanine debt financing and/or preferred equity investments in relation  
8 to real property upon which a mortgage instrument is filed in the same  
9 manner as the local mortgage recording tax.

10 § 6. Subdivision 1 and paragraph (a) of subdivision 2 of section 253-a  
11 of the tax law, as amended by chapter 343 of the laws of 1990, are  
12 amended to read as follows:

13 1. Any city in this state having a population of one million or more,  
14 acting through its local legislative body, is hereby authorized and  
15 empowered to adopt and amend local laws imposing in any such city (A)  
16 prior to February first, nineteen hundred eighty-two a tax of fifty  
17 cents, (B) on or after February first, nineteen hundred eighty-two and  
18 before July first, nineteen hundred eighty-two with respect to (i) one,  
19 two or three-family houses, individual cooperative apartments and indi-  
20 vidual residential condominium units, and (ii) real property securing a  
21 principal debt or obligation of less than five hundred thousand dollars,  
22 a tax of fifty cents, and with respect to all other real property a tax  
23 of one dollar and twelve and one-half cents, (C) on and after July  
24 first, nineteen hundred eighty-two and before August first, nineteen  
25 hundred ninety with respect to real property securing a principal debt  
26 or obligation of less than five hundred thousand dollars, a tax of fifty  
27 cents, with respect to one, two or three-family houses, individual coop-  
28 erative apartments and individual residential condominium units securing  
29 a principal debt or obligation of five hundred thousand dollars or more,  
30 a tax of sixty-two and one-half cents, and with respect to all other  
31 real property a tax of one dollar and twenty-five cents, and (D) on and  
32 after August first, nineteen hundred ninety with respect to real proper-  
33 ty securing a principal debt or obligation of less than five hundred  
34 thousand dollars, a tax of one dollar, with respect to one, two or  
35 three-family houses and individual residential condominium units secur-  
36 ing a principal debt or obligation of five hundred thousand dollars or  
37 more, a tax of one dollar and twelve and one-half cents, and with  
38 respect to all other real property a tax of one dollar and seventy-five  
39 cents, for each one hundred dollars and each remaining major fraction  
40 thereof of principal debt or obligation which is or under any contingen-  
41 cy may be secured at the date of execution thereof, or at any time ther-  
42 eafter, by a mortgage on such real property situated within such city  
43 and recorded on or after the date upon which such tax takes effect and a  
44 tax of one dollar on such mortgage if the principal debt or obligation  
45 which is or by any contingency may be secured by such mortgage is less  
46 than one hundred dollars. In each instance where the tax imposed pursu-  
47 ant to this subdivision is one dollar and twenty-five cents for each one  
48 hundred dollars and each remaining major fraction thereof of such prin-  
49 cipal debt or obligation, fifty percent of the total amount of such tax,  
50 including fifty percent of any interest or penalties thereon, shall be  
51 set aside in a special account by the commissioner of finance of such  
52 city. In each instance where the tax imposed pursuant to this subdivi-  
53 sion is one dollar and seventy-five cents for each one hundred dollars  
54 and each remaining major fraction thereof of such principal debt or  
55 obligation, thirty-five and seven-tenths percent of the total amount of  
56 such tax, including thirty-five and seven-tenths percent of any interest

1 or penalties thereon, shall also be set aside in such special account.  
2 Moneys in such account shall be used for payment by such commissioner to  
3 the state comptroller for deposit in the urban mass transit operating  
4 assistance account of the mass transportation operating assistance fund  
5 of any amount of insufficiency certified by the state comptroller pursu-  
6 ant to the provisions of subdivision six of section eighty-eight-a of  
7 the state finance law, and, on the fifteenth day of each month, such  
8 commissioner shall transmit all funds in such account on the last day of  
9 the preceding month, except the amount required for the payment of any  
10 amount of insufficiency certified by the state comptroller and such  
11 amount as he deems necessary for refunds and such other amounts neces-  
12 sary to finance the New York city transportation disabled committee and  
13 the New York city paratransit system as established by section fifteen-b  
14 of the transportation law, provided, however, that such amounts shall  
15 not exceed six percent of the total funds in the account but in no event  
16 be less than two hundred twenty-five thousand dollars beginning April  
17 first, nineteen hundred eighty-six, and further that beginning November  
18 fifteenth, nineteen hundred eighty-four and during the entire period  
19 prior to operation of such system, the total of such amounts shall not  
20 exceed three hundred seventy-five thousand dollars for the administra-  
21 tive expenses of such committee and fifty thousand dollars for the  
22 expenses of the agency designated pursuant to paragraph b of subdivision  
23 five of such section, and other amounts necessary to finance the operat-  
24 ing needs of the private bus companies franchised by the city of New  
25 York and eligible to receive state operating assistance under section  
26 eighteen-b of the transportation law, provided, however, that such  
27 amounts shall not exceed four percent of the total funds in the account,  
28 to the New York city transit authority for mass transit within the city.  
29 The tax imposed under the authority of paragraph (D) of this subdivision  
30 is deemed to include a tax imposed on the filing of financing statements  
31 evidencing a security agreement pertaining to mezzanine debt financing  
32 and/or preferred equity investments in relation to real property upon  
33 which a mortgage instrument is filed.

34 (a) For the purpose of determining whether a mortgage is subject to  
35 the tax authorized to be imposed by paragraph (B) or (C) of subdivision  
36 one of this section at a rate in excess of fifty cents, or by paragraph  
37 (D) of subdivision one of this section at a rate in excess of one  
38 dollar, for each one hundred dollars and each remaining major fraction  
39 thereof of principal debt or obligation, the principal debt or obli-  
40 gation which is or under any contingency may be secured at the date of  
41 execution thereof, or at any time thereafter, by such mortgage shall be  
42 aggregated with the principal debt or obligation which is or under any  
43 contingency may be secured at the date of execution thereof, or at any  
44 time thereafter, by any other mortgage, where such mortgages form part  
45 of the same or related transactions and have the same or related mortga-  
46 gors or related debtors in the case of a financing statement evidencing  
47 a security agreement pertaining to mezzanine debt financing and/or  
48 preferred equity investments in relation to real property upon which a  
49 mortgage instrument is filed. If the commissioner of taxation and  
50 finance finds that a mortgage transaction or mortgage transactions have  
51 been formulated for the purpose of avoiding or evading a rate of tax  
52 authorized to be imposed under subdivision one of this section in excess  
53 of the lowest such authorized rate, rather than solely for an independ-  
54 ent business or financial purpose, such commissioner shall treat all of  
55 the mortgages forming part of such transaction or transactions as a  
56 single mortgage for the purpose of determining the applicable rate of

1 tax. For purposes of this subdivision, there shall be a presumption that  
2 all mortgages offered for recording within a period of twelve consec-  
3 utive months having the same or related mortgagors or related debtors  
4 are part of a related transaction, and such presumption may be rebutted  
5 only with clear and convincing evidence to the contrary. The commission-  
6 er of taxation and finance may require such affidavits and forms, and  
7 may prescribe such rules and regulations, as he determines to be neces-  
8 sary to enforce the provisions of this subdivision. Any reference to a  
9 mortgage in this subdivision includes a financing statement evidencing a  
10 security agreement pertaining to mezzanine debt financing and/or  
11 preferred equity investments in relation to real property upon which a  
12 mortgage instrument is filed.

13 § 7. Paragraph (a) of subdivision 1 of section 255 of the tax law is  
14 amended by adding a new subparagraph (iii) to read as follows:

15 (iii) Notwithstanding the provisions of subparagraph (i) of this para-  
16 graph, the taxes imposed by the authority under subparagraph three of  
17 paragraph (a) of subdivision two of section two hundred fifty of this  
18 article shall apply to mezzanine debt and/or preferred equity invest-  
19 ments as such terms are defined by subdivision four of such section.

20 § 8. Section 257 of the tax law is amended to read as follows:

21 § 257. Payment of taxes. The taxes imposed by this article shall be  
22 payable on the recording of each mortgage of real property subject to  
23 taxes [~~thereunder~~] under this article and to taxes imposed by subpara-  
24 graph three of paragraph (a) of subdivision two of section two hundred  
25 fifty of this article on and after the effective date of such subpara-  
26 graph. Such taxes shall be paid to the recording officer of any county  
27 in which the real property or any part thereof is situated. It shall be  
28 the duty of such recording officer to indorse upon each mortgage and any  
29 mezzanine debt included with such mortgage a receipt for the amount of  
30 the tax so paid. Any mortgage so indorsed may thereupon or thereafter be  
31 recorded by any recording officer and the receipt for such tax indorsed  
32 upon each mortgage shall be recorded therewith. The record of such  
33 receipt shall be conclusive proof that the amount of tax stated therein  
34 has been paid upon such mortgage, including any mezzanine debt.

35 § 9. Subdivision 1 of section 258 of the tax law, as amended by chap-  
36 ter 241 of the laws of 1989, is amended to read as follows:

37 1. No mortgage of real property shall be recorded by any county clerk  
38 or register, unless there shall be paid the taxes imposed by and as in  
39 this article provided. No mortgage of real property which is subject to  
40 the taxes imposed by this article shall be released, discharged of  
41 record or received in evidence in any action or proceeding, nor shall  
42 any assignment of or agreement extending any such mortgage be recorded  
43 unless the taxes imposed thereon by this article shall have been paid as  
44 provided in this article. For purposes of the taxes imposed and author-  
45 ized by subparagraph three of paragraph (a) of subdivision two of  
46 section two hundred fifty of this article, unless such taxes shall have  
47 been paid, no mortgage of real property shall be recorded by any county  
48 clerk or register, nor shall such mortgage be released, discharged,  
49 recorded or received in evidence in any action or proceeding, nor shall  
50 any assignment of agreement extending such mortgage be recorded.

51 Provided, however, except as otherwise provided in subdivision two of  
52 this section, in order to obtain a release or discharge of record where  
53 the mortgagor is not liable for the special additional tax imposed under  
54 subdivision one-a of section two hundred fifty-three of this chapter,  
55 such mortgagor or any subsequent owner of the mortgaged property or a  
56 part thereof may pay the tax imposed under such subdivision one-a and

1 penalty, and may either apply for the credit allowable under this chap-  
2 ter for payment of such additional tax or may maintain an action to  
3 recover the amounts so paid against any person liable for payment of the  
4 tax or any subsequent assignees or owners of such mortgage or consol-  
5 idated mortgage of which such mortgage is a part, as if such amounts of  
6 tax and penalty were a debt personally owed by such persons to the mort-  
7 gator or subsequent owner. No judgment or final order in any action or  
8 proceeding shall be made for the foreclosure or the enforcement of any  
9 mortgage which is subject to any tax imposed by this article or of any  
10 debt or obligation secured by any such mortgage, unless the taxes,  
11 including taxes authorized by subparagraph three of paragraph (a) of  
12 subdivision two of section two hundred fifty of this article imposed by  
13 this article shall have been paid as provided in this article; and,  
14 except as otherwise provided in subdivision two of this section, whenev-  
15 er it shall appear that any mortgage has been recorded without payment  
16 of a tax imposed by this article there shall be added to the tax a sum  
17 equal to one-half of one per centum thereof for each month or fraction  
18 of a month for the period that the tax remains unpaid except where it  
19 could not be determined from the face of the instrument that a tax was  
20 due, or where an advance has been made on a prior advance mortgage or a  
21 corporate trust mortgage without payment of the tax, in which case there  
22 shall be added to the tax a sum equal to one per centum thereof for each  
23 month or fraction of a month for the period that the tax remains unpaid.  
24 In any case where a mortgage of real property subject to a tax imposed  
25 by this article has heretofore been recorded or is hereafter recorded in  
26 good faith, and the county clerk or register has held such mortgage  
27 nontaxable or taxable at one amount, and it shall later appear that it  
28 was taxable or taxable at a greater amount, the commissioner of taxation  
29 and finance may remit the penalties in excess of one-half of one per  
30 centum per month.

31 § 10. This act shall take effect on the ninetieth day after it shall  
32 have become a law.