

# STATE OF NEW YORK

3139

2021-2022 Regular Sessions

## IN ASSEMBLY

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Introduced by M. of A. EPSTEIN, CRUZ, RICHARDSON, SIMON, L. ROSENTHAL, REYES, GLICK, BARRON, GOTTFRIED, CARROLL, ANDERSON -- Multi-Sponsored by -- M. of A. COOK, FRONTUS -- read once and referred to the Committee on Judiciary

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

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

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1 mezzanine debt or preferred debt, if either is used by the borrower or  
2 mortgagor.

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

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

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

19 (h) Security interest perfected by financing statement. 1. Notwith-  
20 standing any provision of law to the contrary, a security interest in  
21 mezzanine debt and/or preferred equity investments related to the real  
22 property upon which a mortgage instrument is filed, may only be  
23 perfected by the filing of a financing statement under subpart 1 of part  
24 5 of this article and only after the payment of any taxes due pursuant  
25 to section two hundred ninety-one-k of the real property law.

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

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

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

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

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

1 in a wraparound or similar mortgage of such real property shall be  
2 deemed a mortgage of real property for the purposes of this article and  
3 shall be taxable as such to the extent of the amount of such proceeds so  
4 used, without regard to whether the aggregate amount of indebtedness  
5 secured by mortgages of such real property is increased or added to.

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

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

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

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

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

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

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

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

48 (e) For the purposes of this subdivision:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

53 Provided, however, except as otherwise provided in subdivision two of  
54 this section, in order to obtain a release or discharge of record where  
55 the mortgagor is not liable for the special additional tax imposed under  
56 subdivision one-a of section two hundred fifty-three of this chapter,

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

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