

# Mortgage Foreclosure Prevention Project for Multi-family Buildings

## June 2003

### **Background:**

A report recently issued by University Neighborhood Housing Program (UNHP) raises concerns about the impact of sharply increasing purchase prices of apartment buildings over the last six years in Bronx neighborhoods. These per unit increases in purchase prices have not been matched by similar increases in net operating income. Much of the financing of these properties has been provided by conventional banks and financial institutions. Despite loan-to-value ratios of between 70-75%, UNHP is concerned that sharp increases in operating costs will make it difficult for some property owners to stay current on tax and mortgage payments while maintaining the building in good repair and providing appropriate services at adequate levels. While we have been operating with the lowest interest rates in recent history, the impact in some buildings may be more clearly felt if interest rates rise significantly when buildings that have recently taken advantage of these rates and financed with five-year balloon mortgages have their financing come up for renewal.

The Bronx has seen this trend before. Many Bronx buildings suffered when a large number of apartment buildings were over-financed and foreclosed upon by Freddie Mac in the late 1980s and early 1990s. An article recently published in the *Bronx County Historical Journal* by Margaret Groarke recalls the major financial losses Freddie Mac took in the early 1990s due to over-financing, causing them to close down their multi-family lending program for an extended period in 1990. While the foreclosure process was financially costly to Freddie Mac, it was more costly to the tenants of the buildings and to the neighborhoods in which the buildings were located.

UNHP has been working with the Fordham Bedford Housing Corporation, the Enterprise Foundation and Fannie Mae to implement a concentrated neighborhood improvement effort in a number of adjacent Bronx neighborhoods, called the Fordham Community Action Plan (FCAP). The problems of overpriced properties are evidenced in a number of apartment buildings in the FCAP area via deteriorating conditions. As part of the strategy to improve the area, we have developed a proposal that could be utilized in many neighborhoods around New York City—a Mortgage Foreclosure Prevention Clearinghouse.

### **Justification for a Mortgage Foreclosure Prevention Clearinghouse:**

While not anticipating the volume of foreclosures seen a decade ago, UNHP expects that there will be a number of multi-family buildings in financial and physical distress in the coming months and years. The typical path for a building confronting financial difficulties starts with a deterioration in services and delays in repairs. We are already starting to see this trend in a number of properties. If the problems in a specific building are bad enough, they can spread to neighboring buildings. If the situation reaches a point where a foreclosure is initiated, the installation of a receiver precedes a lengthy adjustment period in the building in which rent collections are complicated by competing claims from the owner and the receiver and a failure on the part of the owner to share accurate rental information, leading to a further deterioration in services. If the owner has adequate legal representation, the foreclosure process can extend for well more than a year and can, in some instances, be further complicated by declaration of bankruptcy. An alternative to the foreclosure process would be a benefit for all parties involved and the neighborhood in general.

## **Proposal:**

We are proposing that a citywide mortgage foreclosure prevention clearinghouse be established that could be utilized by community organizations, public agencies, owners, banks and lenders **that** are involved with properties that are in physical and/or financial difficulty. Utilization of the clearinghouse would be intended to either move troubled properties quickly to new ownership or to ensure that critical rehabilitation funds find their way to the property to avoid further deterioration of services and building conditions while also avoiding the lengthy and expensive process of foreclosure.

To limit start-up delays and overcome credibility concerns, we are also proposing that the clearinghouse be housed within the framework of an existing organization that is currently dealing with lenders and non-profit and for-profit real estate and community development organizations.

The clearinghouse would attempt to work with the existing owner and the financial institution to devise an action plan to improve conditions in the building. Potential action plans could assist the existing owner repair the building or could transfer the property to an owner with the capacity to renovate and operate the property in a satisfactory manner.

The tools needed to make the clearinghouse viable include:

- a) affordable acquisition funds including ability to access City PLP money with an increase in the per unit caps on acquisition under the program
- b) affordable rehabilitation financing
- c) a list of pre-qualified for-profit and non-profit purchasers with geographic targeting
- d) creation of an intermediary similar to Neighborhood Restore in the Third Party Transfer project that could be utilized in certain cases to take title quickly and move property to a qualified entity.

UNHP is seeking to work with its many partners and organizations of similar goals and interests to see this concept brought to reality in a timely fashion.

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