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Housing Matters

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2003 Marks 20th Anniversary Year and Forum

Thriller was number one on the pop charts, Ronald Reagan was half way through his first term as President, and the movement to rebuild the Bronx after the waves of abandonment and arson during the 1970s was in its infancy. The year was 1983 and Fordham University, the Jesuit institution of higher learning located in the heart of the Bronx, took its role in the community to another level when it created the University Neighborhood Housing Program. While it would be another five years before the Northwest Bronx Community and Clergy Coalition signed on as a partner sponsor organization, UNHP had begun to carry out its mission to create, preserve and finance affordable housing in the Northwest Bronx.

This year we celebrate 20 years of community development work, playing a vital role in the improvement of the Northwest Bronx through our low interest loan funds, technical assistance, research and organizing efforts. As is often the case, the measurable outcomes cannot adequately reflect the value of UNHP's work. Problem solving, issue raising, and relationship building cannot be easily quantified. However, our numbers are not insignificant.

Some of our highlights over the years include 85 loans totalling over \$3.1 million, assisting in the creation of over 750 units of affordable housing, organizing the Providers United Family Daycare Network, creating the award winning Community Resource Guide on our website, gaining status as a Community Development

Financial Institution in 2001, and winning the participation of 8 banks and 2 religious investors in our various loan funds.

The highlight of our celebratory year will be a 20th Anniversary Breakfast Forum held at Fordham University's Walsh Library (Rose Hill Campus in the Bronx) on Wednesday, June 25 at 9:30 AM. The forum will feature the presentation of an extensive research effort by UNHP, in partnership with the Citizens Housing and Planning Council, on real estate pricing trends in the Bronx since 1985 (see article on page 6).

The 20th Anniversary Breakfast Forum is free, but space is limited. Those in attendance will receive a copy of the pricing study report as well as our 20th anniversary journal. If you are interested in attending, please contact Cathy Clarke at clarke@unhp.org or 718-933-9301 by June 11th.

Advertise in our Anniversary Journal!

We are currently soliciting advertisements for our fund-raising 20th Anniversary Journal. If you are interested in placing an ad in our journal, please contact Cathy Clarke or Gregory Jost at 718-933-3101 or mail@unhp.org. The deadline for submission is May 20th. The rates for advertising in the journal are as follows:

- Whole page.....\$1,000
- 1/2 page.....\$600
- 1/4 page.....\$350
- Contributor Listing.....\$150

Tax Cut Proposal Threatens Low Income

Due to the struggling economy, homeland security expense increases, wars in Afghanistan and Iraq and two tax cuts in the first two years of the Bush administration, the surplus of 2 years ago has morphed into a growing enormous deficit. The cost of rebuilding Iraq is still being quantified. And yet, the administration's third proposed major tax cut is under serious consideration in Congress.

The implications of the proposed tax cut seem to receive little attention in the debate among economists. These implications will translate into serious consequences for neighborhoods and families. The proposed tax cut will specifically undermine the production of low-income housing as well as a number of other programs by eliminating the dividend tax. According to groups as diverse as the National Low Income Housing Coalition (NLIHC), the Local Initiatives Support Corporation (LISC) and Ernst and Young (E&Y), the elimination of the dividend tax (or the dividend exclusion) will severely affect tax credit based programs including the low income housing tax credit and the new markets tax credit. A recent study by E&Y estimates conservatively a 35% cut in units of affordable housing produced if the dividend tax is repealed.

The way that the dividend exclusion will hurt any and all programs financed by tax credits is by reducing the incentive for corporate investment in the credits. Currently, corporations are able to shelter some of their earnings from taxes by investing in tax credit funds. While this reduces the tax income to the government, the money is going into the creation of low income housing and other valuable programs. If the corporation does not invest in the tax credit, they then must pay tax on the income.

At the same time, shareholders must pay tax on dividends they receive, even if the corporation has already paid tax on the same earnings it used to pay the dividend, resulting in what many call a double taxation. What the dividend exclusion will do is eliminate the tax shareholders pay on dividends when a corporation has already paid tax on those earnings.

This means that corporations will be able to offer investors tax-free dividends based on earnings that have already been taxed. At the same time, corporations that invest in tax credits will not be able to offer tax-free dividends because those earnings were never actually taxed. Hence, investors who seek tax-free dividends will be more likely to invest in corporations that do not invest in tax credits. The net result is there will be less incentive for corporations to invest in tax credits.

Currently, Low Income Housing Tax Credits are the federal government's largest program for the creation of low income housing, generating about \$6 billion in equity for the development of approximately 250,000 units of low income housing per year, and more than 1.5 million units since 1987, according to LISC. Many of the development projects UNHP provides technical assistance to rely heavily on tax credit financing in order to be financially feasible. Often developers in areas like the Northwest Bronx must apply for near the maximum amount of tax credits a project is eligible for in order to make it work, and a reduction in the value of the credits could mean a drastic decline in the creation of affordable housing in high cost markets like ours.

The tax cut is part of the overall budget resolution going through congress right now (see

Housing in More Ways than One

article page 6). The Senate approved a version of the budget resolution that reduces the President's tax cut proposal by about half to \$350 billion over 10 years, while the House of Representatives has approved a cut of \$550 billion. What will become of the bill in conference negotiations is still up in the air, and whatever the compromise bill looks like, it will need only a simple majority to pass and head to the President's desk for signature. It is estimated by some groups that the \$550 billion cut, approved by the House, is the minimum needed to finance the dividend tax cut.

LISC, the Enterprise Foundation and other

groups are asking supporters of low income housing to contact and meet with their congressional representatives, asking them to protect the tax credits by treating them as taxes paid or by eliminating entirely the dividend exclusion. Other groups such as NLIHC are advocating no tax cuts at all, as any tax cut in such economic times is bad policy and will reduce social spending on many programs including housing. Indeed, recent polls suggest the majority of Americans agree with this position.

The capitol switch board number is 1-202-224-2131 and you can email your representatives easily from www.congress.org.

Water Board Threatens Yet Another Steep Rate Hike

The drought is over, but the annual spring proposal to raise water rates is back. This year, the Water Board is considering a 6.5% increase. As UNHP celebrates its' 20th anniversary, many will recall that the cost of water has been a long term issue for UNHP. For the 14th consecutive year, UNHP has opposed water rate increases, supported remedial programs for rate payers and tried to educate the Water Board and the Department of Environmental Protection (DEP) on the impact of water costs on affordable housing.

Over the years, UNHP's participation in city-wide discussions on water rates and other remedial programs has helped keep the system from shifting entirely to metered billing through the creation of a fixed rate program. It would be expected that a billing program based entirely on use would result in higher payments for buildings with larger (2 & 3 bedroom) apartments and larger families; many of the community-controlled buildings UNHP works with are this type of building. As a re-

sult of the creation of this alternative program, many buildings have been able to cap their water bills. UNHP has educated dozens of private and nonprofit owners on DEP programs and helped groups reduce their bills by many thousands of dollars.

The importance of being as vigilant as possible on issues affecting affordable housing is especially critical right now. Programs that affect rental income (e.g., Section 8), operating costs (e.g., water and sewer charges), grant funding for renovations (NYS Low Income weatherization), equity (e.g., Low Income Housing Tax Credit), and debt (e.g., City housing loan programs) are key to our community development work. Water is one of those issues. We continue to urge community organizations to monitor the proposals and programs of the DEP and the Water Board. The Water Board will be voting on the new increase and other program proposals on May 5th. The DEP website is located at www.nyc.gov/dep.

Fordham Community Action Plan Provides

The partnership between UNHP and Fordham Bedford Housing Corporation (FBHC) has been a long and successful endeavor. While UNHP has provided technical assistance, low interest loan funds and equity support, FBHC has built and renovated a great deal of housing over the past 22 years. Currently FBHC owns and manages more than 1700 units of affordable housing in over 70 buildings.

The two groups have recently collaborated on a number of projects and planned ahead to continue the collaboration, partnering with three major supporters: Fannie Mae, the Enterprise Foundation and the City's Department of Housing Preservation and Development (HPD). Part of the process has been identifying a focus area within the Northwest Bronx in which to carry out these collaborative projects under what we are calling the *Fordham Community Action Plan (FCAP)*. The boundaries of this focus area are Bedford Park Boulevard to the North, University Avenue to the West, Burnside Avenue to the South, and Park and Webster Avenues to the East.

The following are descriptions of some of the current and future projects the partnership plans to carry out under FCAP.

Asset Control Area

One of the products available to low-income homebuying households has been Federal Housing Administration (FHA) insured mortgages. Since low income households are considered more of a risk, the federal government and HUD, through FHA, insured these mortgages meaning virtually no risk to the lender. The reasons are not clear, but the number of FHA foreclosed properties in our area have

recently increased sharply. For instance, the National Training and Information Center tracked FHA foreclosures from 1996-2000. In the approximate confines of our focus area there were between 10 and 12 foreclosures during those 5 years. In the last year alone, there were a similar number of foreclosures in the same area. Vacant boarded up homes easily become problems in the community; they are targets for vandalism and serve as hot-spots for drug or other illegal activity.

UNHP and FBHC see these properties as opportunities to create housing for first time homebuyers who have undergone sufficient counseling to purchase and adequately renovate the properties, ensuring that the buildings do not enter a cycle of re-sale and foreclosure. Under a revised program called the Asset Control Area (administered by HUD), localities or nonprofits may apply to become a receiver of FHA-insured foreclosed properties at a discount. UNHP and FBHC are currently working with Fannie Mae, Enterprise Foundation and the City to institute the program in the FCAP area. A key to the program will be financing for renovations to the properties and a right of refusal provision. Under the program, FBHC would then be able to sell the newly renovated homes to low- and moderate-income households.

Jacob's Place Tax Credit Proposal

Larger parcels of vacant land are hard to come by in the area these days. When FBHC identified four contiguous City-owned vacant lots, they realized the potential for the creation for a substantial number of affordable housing units. FBHC, with technical assistance from UNHP, has recently submitted a proposal to the State for financing from Low Income Hous

Focused Approach to Local Housing Needs

ing Tax Credits to build a 63 unit building on Webster Avenue between 184th and 185th Streets.

Not only would the building provide the large number of affordable housing units (a majority of them highly demanded 2- and 3-bedroom apartments), but the building is also designed to provide classroom space on the first floor for Universal Pre-Kindergarten. If FBHC is awarded the tax credits to finance the building, it will be named *Jacob's Place* after Astin Jacobo, a longtime community organizer from Crotona who passed away last year.

Third Party Transfer Program

The Third Party Transfer Program is a City initiative that moves buildings in major tax arrears to private and nonprofit ownership through an intermediary called Neighborhood Restore. Many times a building in financial trouble is also in severe physical distress leading to acute hardships for tenants. FBHC is currently utilizing the program to acquire and rehabilitate housing in the FCAP area. At 4611 Park Avenue, FBHC is managing the 8 unit property and will take ownership with the closing of a HPD-sponsored renovation loan. At 2285 Davidson Avenue, they have been named Qualified Developer of the 51 unit building and await the resolution of court proceedings.

7A Administration Rule Change

Many apartment buildings in our focus area suffer from lethal neglect while their owners remain current in tax payments. These buildings cannot be removed from current ownership under the Third Party Transfer program, as it only takes overdue real estate tax into account and not building conditions.

One way in which these types of buildings can be moved to better management is through the City's 7A program. Under this program, a qualified organization can be named manager of a building that is suffering from damaging neglect and in need of emergency repairs. An example of this can be found at the 55 unit building at 3569 DeKalb Avenue (the building featured in the Norwood News and the scene of the death of an 8-year old boy by an electrical fire) for which FBHC has been appointed 7A administrator.

While the DeKalb building is improving thanks to better management and City-funded renovations, it still remains in the hands of the owner who let the building fall into its horrid conditions. Recent legislation by the City has improved the 7A program so that in the case that a qualified nonprofit purchases a building in the program, the emergency repair liens would be forgiven. UNHP and FBHC are hoping for further improvements to the 7A program making it a more viable option for the improvement of damaged housing stock.

Multifamily Foreclosure Clearinghouse

It doesn't take much research to document the negative impacts wreaked on neighborhoods by foreclosures on multifamily properties. During the round of Freddie Mac foreclosures in the early 1990s, hundreds of buildings underwent the cycle of deterioration that accompanies such a process. Rising prices and larger mortgages in buildings that are already in deteriorated condition lead to further decline in service and repair, as we are witnessing now. Since many of these buildings are in precarious financial situations, any significant rise in operating costs or drop in income can throw

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Cuts to Section 8 Jeopardize Housing

The threat of cuts to the Section 8 voucher program loomed large earlier this year. Although the overdue budget for Fiscal Year 2003 was passed with no cuts to existing vouchers, no new vouchers were authorized either – not good news for tenants on Section 8 waiting lists. Congress is already working on next year's budget, and the Administration has proposed giant cuts in funding for the Department of Housing and Urban Development (HUD) including major overhauls to the way vouchers are funded. Many housing advocates are deeming this bad news.

Part of the budget resolution may include a giant tax cut (see article page 2), but even if that is reduced or eliminated, funding for major programs including Section 8 is in jeopardy. The President's proposed budget would cut about \$5 billion in discretionary spending from HUD (compared to last year's budget adjusted for inflation), including \$858 million (about 137,000 vouchers nationwide) out of Section 8, and includes a number of other drastic cuts.

FCAP Partnership

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the buildings into negative cash flow. The current rise in expenses (property taxes, insurance rates and a volatile fuel market) does not bode well for these buildings or their tenants.

The FCAP partnership is hoping to foster the creation of a clearinghouse that banks would be able to utilize to develop workouts on properties in default to avoid expensive foreclosures. The community would benefit from the development of such a workout plan that would include responsible for-profit and non-profit ownership with funding for much-needed renovation work.

Both tenants and landlords of Community Boards 5 and 7 (closely aligned with our Focus Area mentioned on page 4) are heavily dependent on Section 8, as almost 13 percent of all rental households receive a subsidy through the voucher program. If major cuts to existing vouchers are implemented, it is not clear if vouchers would be taken away from tenants currently receiving the subsidy, or whether the reduction would come from natural attrition coupled with no new vouchers.

According to the Center for Budget and Policy Priorities (www.cbpp.org), the House version of the bill would cut discretionary spending \$15.4 billion, *three times* as much as the Administration's proposal. It is not clear at this time what the exact amount of cuts to vouchers would be in this proposal, but the potential for substantially more cuts is great. The Senate version of the bill would cut discretionary spending by only \$200 million. A compromise bill cutting funding \$2 billion more than the President's proposal has emerged from conference committee negotiations and has already been passed by the House.

The National Low Income Housing Coalition is warning against fights amongst housing advocates over individual programs, as increased funding for one program would come out of another program's budget. Rather, the Coalition is encouraging housing advocates to push for increased funding of all HUD programs. Because the budget is tied to the President's proposed tax cut, there will be more negotiations before a final version of the bill is reached. Those interested in contacting their elected representatives in Washington may do so easily either by calling the Capitol Switchboard at 1-212-224-2131 or visiting www.congress.org.

A Real Estate Bubble in the Bronx?

UNHP to Publish Study of Rising Prices in Bronx Multifamily Housing

This spring UNHP will publish a study on rising prices in the Bronx real estate market. The report, entitled “A Real Estate Bubble in the Bronx? A Study of Trends in Bronx Multifamily Housing, 1985-2001,” examines pricing trends in the Bronx market and explores factors that influence price.

UNHP’s report echoes concerns being voiced throughout the housing field about the impact of escalating real estate prices on affordable housing. If there is a housing “bubble,” what are the potential consequences for the preservation of affordable housing and the stability of our local communities?

In the wake of instability in U.S. financial markets in recent years, “speculative bubble” has become a familiar term to many. It describes a situation where an asset’s price is based on the expectation of future price increases and not on the earnings or profitability of the asset.

UNHP initiated this research over two years ago in order to assess whether rising prices for multifamily properties correlate to a fundamental rise in property values or indicate a more speculative form of market activity. UNHP began investigating pricing trends in 2000 as increasing anecdotal evidence of significant price increases began to circulate in the Bronx housing market. The research was sparked by a concern about how broader trends in the Bronx housing market might threaten the stability and affordability of local housing, and thus also the stability of our local communities.

The research project has received invaluable sup-

port and assistance from Citizens Housing and Planning Council. In particular, Dr. Frank Braconi consulted with UNHP on the research design and performed the regression analysis of the data on building sales.

The research findings confirm that the Bronx multifamily housing market has experienced a dramatic and sustained increase in the average price per unit since 1996. The regression analysis of the data, which controls for a number of property and market factors including location, indicates a substantial increase of 123.6% in real per unit sales prices from 1996 to 2001. In the past two years, the UNHP data (obtained from First American Real Estate Solutions) indicates that prices dipped in 2001 and rebounded in the fourth quarter of 2001 and throughout 2002.

However, according to data from the New York City Rent Guidelines Board, these price increases in the Bronx market have not been matched by increases in the net operating income in Bronx multifamily properties. This disconnect between price and profitability raises concerns about the long term impact of higher prices on affordable housing and local communities in the Bronx.

The report concludes by considering practical steps that could be taken by city agencies, foundations, nonprofit housing organizations, private owners, and financial institutions to offset the potentially negative consequences of recent pricing trends. UNHP hopes to engage all participants in the affordable housing community—public, private, nonprofit, philanthropic and community residents—in considering these important questions and possible steps that can be taken to increase the stability, well-being and sustainability of local communities like ours here in the Bronx.

Anti-Predatory Lending Initiative Planned

Many of us are familiar with slogans on TV, radio or billboards advertising, "Bad credit? No credit? No problem!" or "We'll approve you for a loan regardless of your credit history!" These businesses are targeting what is referred to as the subprime market -- loan applicants with credit ratings that are below the "A" level that many conventional lenders prefer (although a number of traditional lenders make subprime loans). The terms of these subprime loans tend to be less attractive than prime loans, usually in the form of higher interest rates. While there is a need for some subprime lending in many communities, the problem arises when these loans become "predatory."

"Predatory Lending" can be defined as lending practices that include excessively high interest rates, prepayment penalties, balloon payments, unauthorized refinancing of a loan, and (most basically) monthly payments the borrower cannot afford. Obviously, when a lender makes a loan knowing that the borrower will not be able to make the monthly payments (often including hidden language that causes rates to spike when a payment is missed), something is fundamentally wrong. Often the lender is insured against foreclosure, so there is little risk to them and the entire scheme can be very profitable.

In recent years, the prevalence of predatory lending practices has come into the national spotlight, and community groups (with the assistance of some government agencies and conventional lenders) have been leading the fight against the practice. Studies by such groups as the Neighborhood Economic Development and Advocacy Project (NEDAP) in New York City and the National Training and Information Center (NTIC) on a national level have also shown that subprime and predatory lending practices are much more common in minority and low-income neighborhoods.

In order to combat predatory lending, legislation has been passed in various states and localities, including New York City, restricting the terms of loans made. While this is helping to reduce the number of new predatory loans made, there are a great deal of homeowners in the Northwest Bronx and throughout the City who already have predatory loans and are in danger of going into foreclosure. UNHP is currently partnering with a number of neighborhood, city, and national groups in a program to help get these homeowners out of their predicaments and keep them in their homes.

The Northwest Bronx Anti-Predatory Lending Initiative hopes to offer qualified homeowners credit counseling, the opportunity to refinance into a conventional loan, and legal assistance in remedying their situation with the predatory lender. The partnership includes Bethex Federal Credit Union, the Parodneck Foundation, Urban Justice Center, West Bronx Housing, the Northwest Bronx Community and Clergy Coalition, Mosholu Preservation Corporation, NEDAP, UNHP, Fannie Mae and Seedco. A hotline will soon be set up for homeowners to call to determine if they are eligible for any assistance.

Housing Matters

is a publication of
University Neighborhood Housing Program
*working to create, preserve and finance
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