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## **New York's neighborhoods on the brink -- again: How to stop an apartment building foreclosure crisis**

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The foundation of New York City's housing system is cracking. The ownership arrangements supporting over 70,000 apartments citywide are on the verge of bankruptcy. While the troubles of a few large complexes such as Starrett City and Riverton Houses have made the papers, they're just the tip of the iceberg: Hundreds of apartment buildings throughout the city are threatened by the prospect of foreclosure.

This could mean serious problems for ordinary New Yorkers. No, if you live in an apartment complex facing foreclosure, you won't get kicked out. But your maintenance complaints could start to go unaddressed. Your building will begin to deteriorate. Before you know it, you could be the resident of a wreck.

What's the cause of the problem? Subprime mortgages in the financial crisis. They didn't just infect single-family homes in Phoenix or luxury high-rises in Florida. Right here in New York, banks and real estate investors coveted apartment complexes that either had a significant number of rent-stabilized units or had recently exited the state's Mitchell-Lama program. Mortgages were negotiated and buildings were purchased based upon what we now know were unrealistic income projections.

Now the bad deals are coming home to roost. The properties aren't generating enough income to pay off the debts they owe to banks, and banks are reluctant to acknowledge these problems because of the potentially devastating impact of a write-down to their balance sheets.

To pull these deals back from the brink of bankruptcy, we need an aggressive program that encourages the banks behind the deals to tackle the problem now. If we don't, the consequence will be a chain reaction starting with deferred maintenance and ending in a 1970s-style neighborhood crisis, where blight could spread like a cancer.

We'd better get to work.

What's the solution? A group of New York City housing advocates has come up with a novel proposal that would use local, state and federal programs without adding to taxpayers' burdens. Here's how it would work. A bank with an inflated loan would split the loan into two pieces: A good loan, which the property's current income would support, and a bad loan, which would represent the excess loan the property's income could not support.

One of two federal programs created last year to deal with the financial crisis, TALF or PPIP, would purchase the good loan from the bank. To induce the purchase, the Federal Housing Administration, Fannie Mae, Freddie Mac or the state's or city's mortgage insurance companies could provide insurance.

The bad loan would only get paid off if there is excess cash available after paying debt service and all building expenses - so it wouldn't be a cinder block dragging down the entire apartment building as a whole. This would mean a write-down for the lending bank - but on an all-in basis less than if the loans were not broken into good

and bad parts.

For this program to work, the city and state need federal cooperation to make the newly constituted "good loans" eligible for federal rescue money. Right now, those two federal programs only cover securitized loans, not whole loans of the sort we're discussing. Extending eligibility is a sensible step - and absolutely in the spirit of the law.

The benefits of the proposal are clear: it could be instituted quickly without new funding from taxpayers, it would soften the financial hit that banks will have to take and ultimately it would stop buildings from suffering a terrible blow. Policymakers should consider it - before New York City's neighborhoods become the next victim of the financial crisis.

Youssef served as president of the New York City Housing Development Corp. from 2003 to 2007. She recently completed a consulting project for the Rockefeller Foundation and Partnership for New York City on this issue.

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