Home-Crisis Program Gets A Late Start

By JOSEPH DE AVILA

After three years of slow progress, a $53.9 million New York City program to help neighborhoods hit hard by the housing market collapse is finally showing a tangible result: people moving into empty, foreclosed homes.

A nonprofit housing developer working with the city has acquired more than 80 vacant homes primarily in southeast Queens and has rehabbed and sold three of them recently to buyers. Among the new homeowners is Betty Miller, 44 years old, who bought a four-bedroom house in November in the Jamaica section of Queens for $250,000.

"This really helped a lot," said Ms. Miller, who works as a school safety agent for a public school in Brooklyn. "I wanted to have something to pass on to my children."

The city effort is part of a $7 billion federal initiative called the Neighborhood Stabilization Program, launched in 2008 in response to soaring foreclosure rates. The city and federal campaigns have faced criticism—a slow rollout on the local level, not enough funding on the national level—but officials said they are now making progress.

To be sure, New York City's foreclosure rates don't compare to areas like Nevada or Florida. But the city and a nonprofit it hired for the program—Restored Homes Housing Development Fund Corp.—have focused on areas where there are large clusters of bank-owned homes, such as Jamaica and the Bedford-Stuyvesant section of Brooklyn.

"Southeast Queens is ground zero for the foreclosure crisis," said Salvatore D'Avola, executive director of Restored Homes. "The goal is to stop the cycle of the foreclosure and stabilize these communities."

In 2008, the city hired Restored Homes to buy up to 100 vacant foreclosed homes to rehab and resell to new buyers. The Furman Center for Real Estate and Urban Policy estimates about 1,500 such homes exist in the city, down from 1,800 in 2009.

"Bringing these homes back to life will really be a significant impact," said Peter Madden of the city's department of Housing Preservation and Development, which runs the program locally.

For example, Restored Homes bought a foreclosed home in Jamaica for $277,000 and spent $30,000 rehabbing it. The nonprofit then sold the home to Ms. Miller and her husband at a below-market rate of $250,000. The couple couldn't have afforded the home without the program, she said.

Another part of the city's plan is to provide up to $80,000 in
forgivable mortgages to homebuyers to purchase foreclosed homes. The New York Mortgage Coalition, a nonprofit housing group hired for the project, wants to make about 50 loans to people who have been vetted by financial counselors.

"It's important to get those homes as soon as they become vacant. Otherwise, it just gets worse and worse," said Adam Marcus of the mortgage coalition.

HPD is also using the $53.9 million in Department of Housing and Urban Development funds to hire other developers to rehabilitate several foreclosed apartment buildings.

The city and its nonprofit partners said the program's rollout in New York started slowly mainly because they had to learn complex federal reporting standards and had initial difficulties identifying eligible foreclosed properties. "There has definitely been a learning curve," said Lindsay Haddix, an HPD official who oversaw the program's first phase.

When NSP was announced, housing groups were thrilled, but many questioned what it could achieve. In November, the Federal Reserve Bank of Richmond said in a report: "NSP funds, while significant, were simply insufficient to address the scope of the foreclosure problem that exists nationally."

There were 1.9 million loans nationwide in foreclosure at the end of June 2011, and that figure is expected to rise, the Richmond Fed said. In New York City, about 72,000 residential foreclosures have been initiated since 2007, according to real-estate website PropertyShark.com.

The report said NSP wasn't a "silver bullet" for the foreclosure crisis, but "it may end up serving as a first step."

Last year, the program came under fire in Congress from Republicans who charged it lets lenders and real-estate speculators off the hook for bad loans.

Its defenders said vacant homes contribute to neighborhood blight and hurt property values. "We recognize the scale of the problem, but we're also seeing communities across this country using NSP in a strategic and targeted way to tackle these challenges," said Mercedes Márquez, an assistant HUD secretary.

NSP's impact on the ground won't be known for at least a year. The city has until February 2013 to spend the rest of its federal money on up to 20 homes.

"It got off to a slow start," said Craig Nickerson of the National Community Stabilization Trust, a group that coordinates sales banks and nonprofits participating in federal program. But "we are seeing neighborhoods beginning to re-stabilize."

Write to Joseph De Avila at joseph.deavila@wsj.com