NY REAL ESTATE RESIDENTIAL | APRIL 25, 2011

Tenants Turn to Lenders to Repair Buildings

By ELIOT BROWN

Housing advocacy groups and the Bloomberg administration are asking bank regulators for help in fixing up deteriorating apartment buildings.

Joel Cairo for the Wall Street Journal

Tenants in a foreclosed Bronx building at 735 Bryant Ave. say the mortgage holder should make repairs.

Advocates say that hundreds of buildings in New York City are falling into disrepair because their owners took on too much debt to buy them in the boom years leading up to the recession. With many of these properties now in foreclosure proceedings and building-code violations stacking up, banks and other debtholders will help decide their future.

Housing advocates, who used to target landlords and opportunistic buyers to fix up aging buildings, have been pressuring lenders in recent months to sell troubled mortgages at discounts so the new owners will be able to afford repairs. They've also been pressuring lenders to fix up properties themselves.

Lenders, however, have rejected the notion that they should sell foreclosed properties or distressed mortgages for less than what buyers will pay. They say they have an obligation to maximize returns for their investors. The onus is on buyers to pay a price that makes sense, they say.

To raise pressure on the banks, advocates and Bloomberg officials earlier this month met with Federal Deposit Insurance Corp. officials to convince the bank regulators to intervene on the issue. The meetings were informational and the FDIC didn't make specific commitments on the issue, attendees said.

Elected officials and advocates are hoping regulators would be able to push banks to sell properties to buyers with strong track records at sustainable prices. A spokesman for the city's Department of Housing Preservation and Development said the agency was encouraged by the initial talks with the banking regulators and it expects to follow up in coming days. Still, it is unclear how much ability and willingness regulators have to intervene in this regard.

In a statement, FDIC spokesman Andrew Gray didn't comment on specific properties. He noted that the agency has requirements for banks to mark loans to their actual values, and standards for banks to make new loans based on "prudent" expectations. "The standards require prudent underwriting, including consideration of the borrower's ability to repay personally or through cash flow from the property," he said.

Since 2006, foreclosure filings have been made on more than 2,100 multifamily properties in the city, the highest level since the early 1990s, according to a study by New York University's Furman Center for Real Estate and Urban Policy released earlier this month. Many expect filings to continue to grow in coming years as more mortgages made during the peak of 2006 and 2007 mature.

Housing advocates and officials charge that lenders have a responsibility to see that foreclosed properties and distressed mortgages are sold for sustainable prices that are in the long-term interest of tenants. "They're just getting their money and running," said Dina Levy, an organizer at advocacy group Urban Homesteading Assistance Board.

Generally, the groups tend to have little leverage and the lenders are able to sell defaulted mortgages and foreclosed properties as they please. The efforts have had some effect, however. Earlier this month, a troubled loan tied to a set of buildings in the Bronx known as the Milbank portfolio sold for about $28 million. The company that oversaw the mortgage, LNR Property, had initially found a bidder willing to pay close to $35 million, but the selling price was lowered after significant pressure from advocates and a wave of code violations were issued by the Bloomberg administration.

The meeting with FDIC officials followed a news conference held by community groups and elected officials including City Council Speaker Christine Quinn in which they criticized large multifamily lender New York Community Bank. The bank, they said, owns a large set of foreclosed properties in which physical conditions have deteriorated, with more foreclosures in the works. "By holding banks accountable now, there is a chance that the next landlord might actually be responsible—not just out to make a quick buck," Ms. Quinn said in a statement.

Lenders point out that they often don't have the ability to fix up deteriorating properties because they don't have control of them. It can often take more than a year to take hold of a property given New York foreclosure laws, lenders say.

"It is truly unfortunate when economic conditions lead to foreclosures, and even more so when they cause a borrower to neglect his responsibilities to his building and his tenants," a New York Community Bank spokeswoman said in a statement. "On the rare occasions when this does occur to someone we have lent to, we intervene to the extent we are permitted to do so but, as lenders, there are limits to what we can do."

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