

THE REAL DEAL

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No bailout for Brownsville

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JPMorgan Chase's federally backed buyout of Bear Stearns in March may have averted a meltdown on Wall Street. But at the other end of the subprime mortgage crisis are neighborhoods like Brooklyn's Brownsville and Ocean Hill, where an increasing number of homeowners are also desperately hoping for rescue.

For many who own homes in these two neighborhoods, which together comprise one of the poorest of the city's 59 community districts, the only recourse against foreclosure appears to be the very subprime mortgage industry that is being blamed for the country's credit crunch.

Delroy Sampson, an unemployed electrician who lives in Brownsville, is just one of many struggling homeowners there.

At his new three-family brick townhouse on Mother Gaston Boulevard in Brownsville, Sampson, 55, explains his situation.

He was laid off from a job at Columbia University. As he struggled to cover for a tenant who fell behind on his rent on one of the house's two rental units, he saw his savings dwindle to \$37. Sampson is subsisting on help from his union while he waits for unemployment benefits. But that's not enough to pay the mortgage on his \$390,000 house, which he bought four years ago with about 5 percent down and a \$275,500 loan from CitiMortgage and a \$100,000 subsidy from the city.

Now, Sampson fears he'll lose the house. During an interview with a reporter, Sampson's cell phone rang with a call from a broker at refinance.com.

Sampson put the call on speakerphone. The broker offered to refinance at a rate lower than Sampson's 6.25 percent interest rate on his 30-year fixed mortgage. "We will be able to save you some money on interest, and at the same time, if you need any cash out or to consolidate any debts, we will be able to do that, too," the sales agent said.

After the agent hung up, Sampson laughed. He went through a homeowner education program at the non-profit Northeast Brooklyn Housing Development Corporation (NEBHCO) and said the fees and additional money that he would have to borrow to buy out 50 percent of the \$100,000 city subsidy would leave him paying higher fees and owing more on his principal. But then again, faced with the possibility of defaulting on his loan, he doesn't have many options.

A grim history

Brownsville and Ocean Hill were once neighborhoods that people left as soon as they could afford to. "Brownsville for more than a century served as an early step on the ladder of upward mobility," wrote author Wendell Pritchett in "Brownsville, Brooklyn: Blacks, Jews, and the Changing Face of the Ghetto."

The neighborhood historically has suffered from some of the highest rates of crime in New York. During the 1960s and 1970s, the city built one of the highest concentrations of public housing projects there.

The area began its comeback in the 1980s and 1990s, when nonprofits such as NEBHCO partnered with the city to develop home ownership programs.

The sizable tracts of vacant, city-owned land in Brownsville and Ocean Hill provided ample space for thousands of new homes, although many have cookie-cutter uniformity. There are blocks of 1,130-square-foot one-family brick Nehemiah homes built in the 1980s by the Eastern Brooklyn Congregations. Spacious two- to four-family attached brick townhouses were built recently by programs sponsored by the New York City Housing Partnership.

Harder hit than most

After rising at a rate on par with the rest of the city over the past decade, property values in Brownsville and Ocean Hill are falling — and the number of homeowners in distress is rising.

According to figures compiled by Sam Heskell, executive vice president of HMS Associates, an appraisal firm, from October 2007 to March 2008, the average sales price for two- to four-family homes, which dominate inventory in Brownsville, dropped from \$590,000 to \$565,000, and the volume of sales fell from 50 to 39.

"There also are a lot of distress sales," said Heskell.

The 2007 foreclosure rate in Brownsville and Ocean Hill for two- to four-family houses was double the 2004 rate, according to the Furman Center for Real Estate and Urban Policy. According to Furman, the area has the city's fourth-highest percentage of subprime loans of any community district in the city.

Sinking despite aid

Even homeowners like Sampson who have benefited from the city's affordable housing programs are struggling to pay their city-subsidized mortgages and other bills. Also, because of the restrictions in his subsidy, Sampson is limited in his ability to open a home equity line of credit.

"I wanted to eliminate my bills and live a little more comfortably, but if I was to get out \$100,000, I would have to give the city \$50,000. The way [the subsidy] is structured, I cannot move," he said.

Jeffrey Dunston, CEO of NEBHCO, who grew up in the neighborhood, said that while the restrictions protect homeowners from certain predatory loans, such as home equity lines on unfavorable terms, they ultimately make homeowners more receptive in a time of crisis to a complete refinancing by a subprime lender — on onerous terms.

Josh Lockwood, executive director of the New York City chapter of the international nonprofit developer Habitat for Humanity, is in the process of developing a \$13 million, 41-unit condominium complex in Brownsville at the intersection of Eastern Parkway and Atlantic Avenue. Sales prices for these condos, which will be based on homeowner income, are expected to range between \$70,000 and \$160,000.

Habitat for Humanity offers 30-year, 0 percent interest loans to its buyers; the homes have prohibitions against refinancing written into the closing documents. However, subprime lenders still try to lend to Habitat's

clients. "We did a survey of our homebuyers and found that over 50 percent had been approached by predatory lenders, who were going to offer them a 'better deal' than 0 percent." said Lockwood.

The community at large is also feeling the impact of speculative lending. Richard Wagner, director of litigation at Brooklyn Legal Services Corporation A, said that many people who have taken out onerous subprime mortgages have only been able to escape foreclosure by selling their houses.

Mark Winston Griffith, a senior policy fellow at the nonprofit Drum Major Institute for Public Policy (a think tank based in Manhattan inspired by Martin Luther King Jr.'s "drum major for justice" quote) said that the neighborhood's inflated property prices have helped obscure the true impact of the subprime mortgage crisis in Brownsville-Ocean Hill.

"We are seeing high rates of default among people whose rates haven't even gone up yet," said Griffith, who formerly ran the Central Brooklyn Federal Credit Union.

Griffith fears that Brownsville could be headed for the dire situation where people actually owe a lot more on their houses than the properties are worth. He said that nobody is looking out for the buyer's interest. "The idea is to try to lock the buyer into the highest rate possible with the highest payments possible," he said. "If the market fails and the buyer can no longer sustain the payments, the buyer is stuck."

By Alex Ulam
