LISC
New York City
Helping neighbors build communities

April 10, 2009

Robert E. Feldman
Executive Secretary
Attention: Comments
Federal Deposit Insurance Corporation
550 17th St NW
Washington DC 20429

Dear Executive Secretary,

I write in response to the FDIC's request for comments on the proposed plan for Public-Private Investment Funds (PPIFs) and the Legacy Loan Program.

The Local Initiatives Support Corporation is a national community development intermediary organization that helps community-based groups to transform distressed communities and neighborhoods into healthy ones by providing capital, technical expertise, training and information. In NYC, LISC has provided over $160 million in loans and grants and over $1.5 billion in equity to more than 75 community development corporations (CDCs), resulting in the development close to 30,000 units of affordable housing in Harlem, the South Bronx, and Brooklyn.

Over the last couple of years in New York City, during the real estate boom, we have observed with increasing concern a process of aggressive and irresponsible over-leveraging of large portfolios of rent-stabilized or formerly government-assisted multi-family rental housing. We have reason to believe that as many as 70,000 units of multi-family rental housing are now significantly over-leveraged – carrying far more debt than can be supported by rents - and are facing imminent foreclosure and/or cut-backs is maintenance and essential services. Tenants occupying these buildings are overwhelmingly low- and moderate-income, and are vulnerable to displacement as a result of the disruption that financial distress and foreclosure of these properties will bring. We believe that this dangerous trend has also occurred in other "high market" cites where speculation in the multi-family residential housing market flourished during the recent real-estate boom.

LOCAL INITIATIVES SUPPORT CORPORATION
501 Seventh Avenue ▪ New York, NY 10018
Phone 212-455-9800 ▪ Fax 212-687-1396 ▪ WWW.LISC.ORG/NYC

Many of the over-valued loans on these properties are likely candidates for sale as "troubled assets" to the PPIFs. We are concerned that, unless these properties are pro-actively identified and designated for treatment under special guidelines, sale of their loans to the PPIFs could simply exacerbate the risk we face of losing this affordable housing stock. We therefore urge you to create a program to preserve this multi-family rental housing stock by ensuring that debt is de-leveraged to sustainable levels, and that, when properties are sold, they are sold to responsible owners. In designing such a program, the following principles should apply:

- Over-leveraged loans must be de-leveraged to a "fair market value." By "fair market value" we mean that such mortgages must be valued utilizing assumptions that insure that there are sufficient funds available for the proper operation and maintenance of the property based on existing tenancy, along with reasonable reserve payments and debt service.
- For properties where debt is greater than the "fair market value," lenders must be required to perform a physical inspection of the asset in consultation with HUD (or a HUD designated unit of local government). A failed physical inspection will trigger a "regulatory default" and the property should be placed into foreclosure.
- Where loans are in default, lenders should be compelled to seek swift foreclosure actions.
- If a lender enters into a loan modification that results in debt forgiveness for an existing borrower or related entity, such borrower should be required to enter into a long term use-agreement with HUD, or a HUD-designated unit of local government, that ensures the long term affordability, financial health and physical integrity of the mortgaged property.

New York City's over-leveraged affordable multi-family rental properties are key housing assets which the City cannot afford to lose. In order to accomplish the goal of preserving this important housing stock, the FDIC may want to consider the creation of a special-purpose entity to hold and dispose of these assets, separate from the PPIF. Such an entity could be modeled on the Resolution Trust Corporation which disposed of troubled assets during the Savings and Loan crisis.

Thank you for the opportunity to comment; if you have questions or wish to discuss these comments, please do not hesitate to contact me at (212) 455-9899

Sincerely,

Denise Scott

Denise Scott
Managing Director, LISC NYC