

TESTIMONY TO THE CONGRESSIONAL HEARINGS  
OF THE  
OVERSIGHT AND OPERATIONS SUBCOMMITTEE  
OF THE  
UNITED STATES HOUSE OF REPRESENTATIVES  
FINANCIAL SERVICES COMMITTEE  
Monday, September 10, 2001  
Adam Clayton Powell, Jr. State Office Building  
New York, NY

I am Karen A. Phillips, President and Chief Executive Officer of the Abyssinian Development Corporation, a not for profit corporation initiated by the Abyssinian Baptist Church in 1987, incorporated in 1989 and designated by the U.S. Internal Revenue Service as a 501 (c) 3. It is significant today to appear before you in the area ADC serves; a community that has the legacy of being the cultural capital of the world for people of African descent, had been used as a symbol of urban decay, and most recently has been heralded as experiencing a second 'Harlem Renaissance'. Thank you for giving me the opportunity to present testimony before the Oversight and Operations Subcommittee of the House Financial Services Committee and to our own Congressman Charles B. Rangel.

The Subcommittee's purpose of convening this hearing in the Village of Harlem is admirable because the impact of this issue is potentially the most destructive force in the stability of this community since crack cocaine. The problems created by the fraud perpetuated on the United States Department of Housing and Urban Development (HUD) 203 K Program could serve to begin to dismantle the gains that have been made in the rebuilding of this economically distressed community. The commitment nearly 15 years ago by the City of New York fueled the redevelopment by not for profit organizations, the business sector, and private developers.

The real estate market in Harlem has been permanently affected by the miss-use of the HUD 203K program that was designed to facilitate the acquisition and rehabilitation of deteriorated housing containing one to four units. The current panic over the 'gentrification' can be directly traced to the scheme of flipping buildings perpetuated by those who targeted Harlem and Brooklyn in an effort to defraud this useful housing program. It was nearly two years ago that I received calls from City Limits inquiring if I had knowledge of the increase in sales of buildings in the area of 120<sup>th</sup> Streets. The reporter noted that the purchases were by churches, and assumed that ADC was involved because of our track record in development. None of the names of 'faith-based organizations' were familiar to me. However, based on my experience, the prices quoted as have being paid for vacant brownstones or buildings that housed Single Room Occupants (SROs) exceeded a value that could accommodate the rehabilitation cost to create a feasible project.

About a year later, I was invited to a meeting where a broker was helping one of the groups who owned property financed by the HUD 203K program attempt to sell of properties in bulk. After reviewing the portfolio and the 'discounted' prices being proposed, I quickly realized the problems with the feasibility of the proposal and the issues that would result from these half finished buildings. ADC declined the proposal, but was quickly made aware by neighbors of the issues created by these by properties like garbage, deterioration of adjacent structures and squatters. It was in late December of 2000 however, when Reverend Butts was approached by HUD to help to resolve this crisis. Working with a number of community based organizations, social service groups, local elected officials, Enterprise Foundation and the Community Preservation League, Darren Walker, Chief Operating Officer of ADC crafted and negotiated an agreement with HUD officials at the time. The details of the plan are available and will be outlined by our partners, but the essence is an investment by HUD to insure that the vacant buildings are developed as affordable homeownership opportunities and that the current residents not be displaced.

The success of faith based organizations in assisting in the redevelopment of housing in areas of Harlem and Brooklyn, made these areas attraction to those unscrupulous real estate professionals. They sought out faith based organizations to take advantage of the HUD 203K Program adjustments for not for profits and the numerous deteriorated, privately owned properties in these communities. These sometimes-unsuspecting churches were enticed by getting into the housing business, and their plan was to create rental units to generate income for the faith-based groups. The Director of one of these group said to me, "We could make tons of money renting four apartments to downtown folks or putting in some special needs programs." Because not one of these faith based organizations was from the area, they were oblivious to the fact that these buildings could lead to the decline of the neighborhoods where they are located. Projects funded using the HUD 203K program that created only rental units would create absentee landlord situations with a population that often has no long term connection to the neighborhood. This is the condition which organizations like ADC have sought to mitigate by using a comprehensive approach community building.

ADC has a mission that includes the creation of housing for a variety of income levels – from transitional housing for the homeless to homeownership of renovated brownstones, several which are adjacent to these properties. The bulk of the nearly 1,000 units that ADC has created utilized the Federal low income housing tax credits. To provide goods and services to the residents of the community, ADC has helped to spur the economic revitalization of Harlem by developing the Pathmark Supermarket. and the Harlem Center shopping centers currently under construction just down the street. Most important to the community's rebirth and its future are the family and community services we provide to stabilize families, prepare them for growth and connections to the mainstream economic system. We have staff that organizes residents to become involved in the transformation of the community. ADC provides education facilities like the Annie G. Newsome Headstart Center and Thurgood Marshall Academy, a partnership between the NYC Board of Education, the New Visions for Public Education Program

and ADC. This is a public school, for local middle and high school students that in two years will relocate into the first new school building in 30 years.

Having nearly 200 properties scattered around this community that are boarded up or in deteriorated conditions with poor tenants that have no services has a devastating effect on a community that is trying to rebuild itself. Many are located on blocks where ADC has property and works with Block associations struggling to keep their area clean, address the problems of drugs and related crimes, and maintain open spaces and the streetscape. These properties do not contribute positively to their efforts, but have been a negative factor by attracting garbage and become havens for illicit activities.

The most serious long-term impact will be the artificial jump in real estate values caused by flipping of properties by those who carried out the fraud on the HUD 203K Program. There had been a normal increase in the property values and real estate prices as a result in the redevelopment in the Harlem area over the past 15 years. A recent study by New York University Law School Professor Schill and others documented the impact of subsidized development for homeownership on property values in area surrounding the projects of the New York City Housing Partnership. My first hand knowledge of this area's real estate market is found in the CitiHomes program, developed by NYC Department of Housing Preservation and Development (HPD, The Enterprise Foundation and the Community Preservation Corporation with marketing by ADC. The average brownstone prices for two to three unit, completely renovated buildings were approximately \$115,000 in Phase I [1994], and \$230,000 in Phase II [1996] for families with incomes below 150% of median income. Though this project received a considerable subsidy of public and private funds, these prices were close to the market values at the time of the Central and East Harlem areas where they were located. In 1999 we began the development of brownstones as part of NYC HPD's Homeworks program, using formerly city owned property to create two to four unit renovated houses for sale with no income restrictions. The prices of those completed brownstones, that are now sold, ranged from approximately \$330,000 to \$500,000, and we are now beginning the construction of the second half of these 33 buildings. The development of these properties was done on City-owned property that had a minimal cost and with a small amount of subsidy. Therefore, the houses that were illegally flipped by the crooks immediately pushed up real estate prices beyond what the regular market could bear. However, when real estate brokers many who were not familiar with the Harlem market, saw these recorded sales and the prices of the HPD sponsored programs, they saw activity that drew them to enter into the area. Other private brownstone prices increased and suddenly shells of buildings, those needed complete renovation, were being marketed for around \$200,000. This was close to prices showing up in the properties used for the HUD 203K program scam and with approximately \$100,000 per floor for rehab cost, would put the average property over the actual market value, in my opinion.

A *New York Times* article from November 26, 2000 noted that the downtown brokers were beginning to realize that there was not the product that they anticipated in Harlem to justify the opening of new real estate offices uptown. Upon further investigation of the numerous transactions that they had observed, these brokers found that the properties

were not available. Though not expressed at that time, it is obvious that their initial optimism about Harlem was fueled by the HUD 203K scandal properties. The attraction had been that you could find houses for a fraction of the cost that they could be obtained just 50 blocks south. Though the complexities of the Harlem market made it less attractive for the high-end market for real estate in Manhattan, the surge in activity and prices has brought about a frenzy of interest in our wonderful housing stock and sparked the fear of gentrification. The perception of gentrification [i.e. people from the outside will move out all of the poor people of color] is more debilitating than the actual reality. Wholesale gentrification cannot be put in place in a community where there has been redevelopment of previously vacant, city-owned property has its affordability tied to long term financing.

The issue now is how do we salvage the “core principles” of the plan signed on January 17, 2001, reflecting the need to strengthen the community, promote homeownership, and increase the availability of affordable housing. The current administration at HUD has rejected the plan by the New York City Group composed of ADC, East Brooklyn Congregations, CPC and Enterprise Foundation. Therefore ADC recommends that HUD continue to negotiate with NYC HPD to orchestrate the process of the disposition of these properties throughout the city.

Their experience in addressing the development process of building in the exact same conditions and in the same communities can facilitate the process and we would be willing to participate in these future programs. Existing HPD programs can manage the orderly relocation of existing SRO residents while repairs are made in their homes with the deteriorated living conditions. HUD must be willing to put up the funds necessary to make a large portion of these properties affordable for moderate-income individuals. The figures we originally calculated were rejected, but HPD has put forth recommendations based on their expensive experience that must be carefully considered. It is also important that preference be given for purchasing to residents of the areas where the properties are located, as is normally found in HPD programs. We strongly feel that selling the portfolio to the highest bidder will again lead to problems of absentee landlords instead of owner occupants that the HUD 203K Program was designed to facilitate. Most important in the resolution of this issue is the need for an immediate investment by HUD in the stabilization of the occupied properties.

Thank you.