

Organizing Against Overfinancing: The Northwest Bronx Coalition Campaign Against Freddie Mac

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Introduction

In the 1970s, community organizing in the Bronx mushroomed, as arson and

abandonment threatened many neighborhoods. People joined together to fight landlords who stopped maintaining their properties and banks who refused to lend to Bronx landlords. Communities also battled City Hall's decisions to close fire stations, police stations and hospitals. One organization active in this struggle was the Northwest Bronx Community and Clergy Coalition.

The central focus for the Northwest Bronx Coalition in those early years was the withdrawal of capital investment. Some unscrupulous landlords "milked" buildings, getting as much rent out of them, while putting as little money into them, until the building was worthless. Banks and insurance companies identified neighborhoods in which they would not make or renew mortgages or insurance policies. Even a well-meaning landlord couldn't keep an apartment building going without financing or insurance. Thousands of buildings were abandoned or burned. To save their neighborhoods, Coalition members pressured banks and insurance companies to invest in the Bronx, and worked with a national coalition of community groups to win passage of the Community Reinvestment Act, a federal law which requires banks to reinvest in the communities they serve (Jonnes 1986, 379).

In the mid-1980s, money started pouring back into Bronx real estate, and the Northwest Bronx Coalition faced a very different problem. Rents began to climb and yet building conditions did not always improve. Research showed that some buildings carried so much mortgage debt that landlords' budgets were squeezed. The Coalition had long focused its tenant organizing on improving housing conditions -- insuring heat and hot water, getting basic repairs -- but now affordability became a concern. What good would it do to save the Bronx's housing stock if Bronxites could no longer afford to live there?

A significant part of this affordable housing campaign was the campaign to rein in what the Coalition saw as irresponsible lending by the Federal Home Loan Mortgage Corporation, popularly known as Freddie Mac. To the Coalition, it seemed that Freddie Mac was making excessively large mortgages on apartment buildings in the Bronx, larger than landlords could pay back out of the rent roll. Landlords reduced services and raised rents, and Coalition members saw that too much money could be as much of a problem as too little money had been in the 1970s. Would it lead, they feared, to another round of unscrupulous speculators and torched buildings?


The success of the Freddie Mac campaign required the Coalition's members to understand how a distant entity -- Freddie Mac, a secondary market mortgage lender -- affected the quality and affordability of their apartments. This article will show how the Northwest Bronx Community and Clergy Coalition organized around a complicated issue, and how they kept Freddie Mac's excessive lending from destroying Bronx housing.

Origins of the Northwest Bronx Community and Clergy Coalition


The Northwest Bronx Community and Clergy Coalition was founded in the summer of 1974 to stem the tide of arson and abandonment which was decimating neighborhoods to the south. Two years earlier, Father Paul Brant of Fordham University, and organizers Jim Mitchell and Roger Hayes, who had all studied in a Jesuit seminary together in Ohio, had started the Morris Heights Neighborhood Improvement Association with Monsignor John McCarthy of Holy Spirit Parish and other community leaders. In 1973, the Northwest Bronx Clergy Conference, which brought together the sixteen Catholic pastors of the Northwest Bronx, expressed interest in supporting a larger community organizing effort, and approached Dollar Savings Bank for money.

In June 1974, the Northwest Bronx Clergy Conference held a three-day conference at Fordham University on "Strategies for Ministry in the Urban Struggle." (Jonnes, 2002, 349.) Out of this meeting, a decision was made to create the NWBCCC. The new organization "covered almost a quarter of the county, from the Bronx Zoo and Botanical Garden to the east, Van Cortlandt Park and the City line to the north, the Harlem and Hudson rivers to the west, and the Cross Bronx Expressway, Webster Avenue and East 180th Street to the south." (Jonnes, 2002, 348.)

The Coalition was initially headquartered on the second floor of 1618 Grand Avenue. Dollar Savings Bank contributed \$15,000, and collections were taken up in the churches to support the organizing effort. The money went to pay organizers, who helped tenants organize tenant associations to secure basic services, particularly in buildings abandoned by their owners. The NWBCCC also targeted city officials for their failure to provide adequate services in Bronx neighborhoods, and banks for their refusal to renew mortgages in redlined neighborhoods in the Northwest Bronx.



Today, the NWBCCC is a closely-knit federation of 9 neighborhood associations. Each of the neighborhood associations within the Coalition has its own priorities and issues. When fully funded and staffed, the NWBCCC has at least one organizer in each neighborhood. Staff are hired by the joint agreement of an elected neighborhood association board and the Coalition's Executive Director. Coalition-wide committees are created to work on issues of concern to several neighborhoods. Staff and neighborhood leaders who are members of Northwest Bronx-wide committees often try to coordinate the neighborhood agenda with the broader Coalition agenda. The NWBCCC is rooted in the tradition of neighborhood organizing developed by Saul Alinsky; one of its first organizers, Roger Hayes, had been trained in Alinsky-style organizing in Chicago (Jonnes 1986, 346; Alinsky 1946, 1971). Housing has been the Coalition's signature issue, but unlike many other community organizations, it has spun off most development and all construction and management tasks to independent organizations, so as not to water down its organizing mission (Stoecker, 2002).



For the first ten years of the Coalition's history, reinvestment was the watchword -- forcing banks and government to reinvest in the Bronx, to preserve and improve communities. It remained an important goal, as the Coalition began "Project Reclaim" in the mid-80s, with the goal of rehabilitating the dozens of vacant buildings that remained from the 70s. But in the mid-80s, real estate speculation inflated the the market value of Northwest Bronx buildings, making investment appear as big a problem as disinvestment had been. Co-op conversion plans became epidemic in the northern neighborhoods of the Coalition's turf -- Norwood, Kingsbridge Heights, and Bedford Park -- and a few co-op plans even appeared in lower-income neighborhoods, like South Fordham in Community Board 5, where the median income of \$14,651 is half that of the level for the city, and 39.5% of all households received public assistance (Demographic Profiles, 1992). Major Capital Improvement (MCI) rent increases, granted to landlords who make building-wide capital improvements (ie., new windows, new boiler) were even more prevalent, and more liberally distributed among northern and southern neighborhoods. Affordability became the new watchword; reinvestment was futile if it made housing unaffordable to the current residents. NWBCCC organizers helped tenant associations fight MCI rent increases, and organized a campaign to demand changes in state housing law and policy to make major capital improvements more affordable to tenants.

The Identification of Freddie Mac as a Problem

It was in the midst of this intensive tenant organizing against MCIs, co-op conversion and deteriorating conditions that Freddie Mac lending was identified as a problem by Coalition staff and tenant leaders in the late 1980s. NWBCCC staff routinely do title searches on buildings they are organizing. In the late 80s, title searches and the Coalition's technical assistance work with non-profit housing companies and private landlords began to reveal the growing dominance of Freddie Mac.

The Federal Home Loan Mortgage Corporation, commonly known as Freddie Mac, is a government-sponsored enterprise operating in the secondary mortgage market. The Federal Government established Freddie Mac to buy out mortgages and repackage them as securities, thus freeing up the assets of banks and mortgage companies to make new mortgages. This makes it easier for homeowners and multifamily property owners to find financing. Freddie Mac makes agreements with banks and mortgage companies which make mortgages to property owners, and then sell those mortgages to Freddie Mac. Mortgagees who participate in this program are known as "Freddie Mac seller/servicers."

The Coalition began to notice Freddie Mac's involvement in local buildings in the late 1980s. Jim Buckley, long-time Coalition organizer and director of the Coalition's Reinvestment Office, remembers working with the Reinvestment Committee in 1987 to convince Freddie Mac to refinance a few buildings owned by local non-profit housing companies. None of the seller/servicers he contacted were willing to write a mortgage for less than \$500,000 -- which was more than the buildings needed or could support. The Reinvestment Committee set up a series of meetings with Freddie Mac to discuss underwriting criteria and present the non-profit housing companies as candidates for mortgages.

Meanwhile, tenant organizers began to notice big mortgages from Freddie Mac. One tenant association in Mount Hope discovered their building carried a large Freddie Mac mortgage; they asked Freddie Mac to to enforce the good repair clause of the mortgage, and force the landlord to do repairs. By 1988, Mary Dailey, the organizer for the Mosholu Woodlawn South Community Coalition (MWSCC) in Norwood, found almost every building she researched had a large mortgage from one of the companies she would later recognize as Freddie Mac seller/servicers. Although the MWSCC board

"thought [she] might be a little crazy trying to sell overfinancing as an issue," they scheduled a workshop on overfinancing for their next monthly meeting, and asked Jim Buckley to lead it. Buckley explained the links between overfinancing, deterioration of building services, abandonment, and even arson. Dailey and Buckley both came away from the meeting impressed with the ease with which people grasped the issue. When Dailey did more title searches, she found that every tenant on the neighborhood board of directors lived in a building mortgaged to Freddie Mac.

Beginning in 1987, Steve Herrick, another Reinvestment Committee staffperson, began exploring the extent of Freddie Mac lending in the Bronx. By 1989, Freddie Mac held \$663 million in multifamily mortgages on more than 700 buildings in the North Bronx (Oppenheim and Sierra 1994, 98; NWBCCC archives). The mortgages were large, relative to the buildings' values, and NWBCCC organizers drew the connection between large mortgages, declining services, and rising rents. As a greater proportion of rental income went into paying back the mortgage, less was available for building maintenance. Landlords were also under pressure to increase rents -- legally and illegally -- or to attempt a lucrative co-op conversion. In fact, the NWBCCC would later learn that some property owners had applied for Freddie Mac mortgages based on inflated rent rolls -- assuming that they would get large MCI rent increases they had not yet applied for. Many Freddie Mac mortgages were based on the inflated property values of New York City's mid-80's real estate boom, and when values began to fall, a landlord might owe more on a building than he could sell it for. As the mortgages multiplied and the real estate market began to sour, NWBCCC members worried that landlords' inability to pay back inflated Freddie Mac mortgages would cause another cycle of abandonment and arson like the one that devastated the Bronx in the 1970s.

Why would any lender willingly lend a landlord more money than he could pay back? The unusual nature of the secondary mortgage market created incentives for seller/servicers and property owners to overvalue their properties to Freddie Mac. The mortgage companies earned fees based on the number and size of the mortgages they made. By buying the mortgage, Freddie Mac was buying the risk -- so seller/servicers lost their usual incentives to make conservative mortgages (Stanton, 1991). Property owners might be tempted enough by the prospect of receiving a lot of cash to ignore the risk of of foreclosure. In the mid-80s, Bronx property owners were very

optimistic (in the eyes of the Coalition, overly so) that rents and property values would continue to climb, and that cooperative conversion would reap them large enough profits to repay huge mortgages. Unfortunately for them, the real estate boom did not last, and some lost their property.

The property owners weren't the only ones who stood to lose. Since Freddie Mac, as a government-sponsored corporation, is backed by the Federal Government, risky behavior on the part of Freddie Mac posed a potential liability for the Federal Government. And tenants faced declining services, rising rents and the instability of foreclosure.

First organizing steps

One of the Coalition's advantages, in approaching the Freddie Mac problem, was that many organization leaders and organizers had experience dealing with mortgage lenders. The strategies they had used to pressure banks to reinvest would help them pressure Freddie Mac to lend more responsibly. Ted Panos, Anne Devenney, Bertha Keller, and other active Coalition leaders in the late 80s had been centrally involved in the Coalition's earliest battles, and felt comfortable taking on large financial institutions. Jim Buckley and Pat Dillon had been on staff since then, many other former staffers were still around in other capacities -- as neighborhood leaders, or as staff at non-profit housing companies. Other staff and leaders had been working on affordable housing issues for two years or more, and were experienced enough to run a large campaign.

A campaign of this magnitude -- challenging the lending policy of a federal government-sponsored corporation -- would require large numbers of people. How would the Coalition explain to hundreds of tenants the relationship between their apartments and the secondary mortgage market? Standard fliers were developed, which clearly drew the links between building conditions, rents, and Freddie Mac overfinancing. One bore the headline, "Why are Rents Going Up/Services Going Down? Its a Freddie Mac Attack!" Some organizing materials used the image of Freddie Krueger (a well-known horror movie villain) lurking behind the U.S. Capitol building, or raised the specter of arson and abandonment returning to the Bronx as it had during the 70's. The sensationalism was balanced with detailed explanations of Freddie Mac and its impact on Bronx housing, printed in English and Spanish, distributed widely throughout the Coalition's turf. Neighborhood staff were encouraged to print them by the thousand, and share them with neighborhood

leadership, affected tenant associations, and even unorganized buildings known to have a Freddie Mac mortgage. Taking a cue from an earlier successful campaign-building process, the Coalition's Affordable Housing Committee decided that each neighborhood association should plan a monthly meeting to discuss the Freddie Mac issue. To facilitate this, a boilerplate agenda was developed by the Reinvestment Committee staff, to help neighborhood leadership and staff plan a speak-out on Freddie Mac, a meeting with seller/servicers who had a lot of mortgages in the community, or a meeting with a Congressional representative. These meetings served as an opportunity for neighborhood leadership to familiarize themselves with the issue, and to reach out to tenants in Freddie Mac buildings who had not yet been organized. The Coalition's early agenda took shape out of concerns that were raised almost every time a new group of tenants were introduced to the Freddie Mac problem:

- If Freddie Mac gave my landlord so much money, shouldn't some of it be spent in the building?
- If they have money invested here, don't they care that the building is deteriorating?
- What will happen if the landlord abandons the building, or Freddie Mac forecloses?
- Since Freddie Mac is sponsored by the government, shouldn't they have a special responsibility to ensure that the buildings they finance provide decent, affordable housing?

Early in the Coalition's history, organizers had discovered an important tool in organizing for better housing conditions: mortgage enforcement. A standard mortgage agreement includes a clause in which the property owner promises the lender that he or she will keep the property in good repair, thus protecting the value of the property that secures the loan. Tenant associations used this "good repair clause" to ask banks to use their authority to pressure recalcitrant landlords for repairs.

The Affordable Housing Committee's agenda for the Freddie Mac campaign borrowed from the Coalition's experience with other mortgage holders. The NWBCCC demanded that Freddie Mac "actively enforce the good repair clause in the mortgage" by doing thorough inspections, insisting on repairs, and foreclosing promptly when it was clear that a landlord would not maintain the property. They demanded that Freddie Mac notify tenants of foreclosure actions, so that tenants could organize to protect themselves. More broadly, they insisted that Freddie Mac change its lending policies to eliminate the incentives for overfinancing, and avert decreased maintenance

and rising rents.

Because Freddie Mac was a government-sponsored corporation, the Coalition decided to ask their representatives in Congress to seek a General Accounting Office (GAO) audit of the Freddie Mac Multifamily Lending Program. GAO validation of the Coalition's charges would be a powerful weapon against Freddie Mac.

The Freddie Mac Campaign

The effectiveness of this campaign-building was evident in the first large public meeting the Affordable Housing Committee held on the issue in January 1989. Three hundred people attended the meeting, from all parts of the Coalition's territory. As an organizer for the Mount Hope Organization at the time, I was present at the meeting, and was impressed that virtually everyone in the room had at least a basic understanding of the problems with Freddie Mac financing. Longtime leaders Teddy Panos and Bertha Keller co-chaired the meeting, and many of the evening's presentations were made by tenants new to the organization. Freddie Mac and the General Accounting Office were represented at the meeting, and then U.S. Representative Robert Garcia attended. As speakers voiced their fears that their landlords would cease providing essential services, or simply abandon the building when they found themselves unable to repay the loans, the Freddie Mac officials responded that the underwriters knew what they were doing and everything would be OK. The assembled tenants were not convinced.

Over the next year, the Affordable Housing Committee led a multi-pronged attack on a variety of targets in its effort to rein in irresponsible Freddie Mac lending. Tenant and neighborhood associations kept the pressure on the mortgage lenders and Freddie Mac to do right by their buildings. The Affordable Housing Committee, which drew its members from the various tenant and neighborhood associations, pressured Freddie Mac for substantive follow-up on the January meeting. The Committee targeted high-level Freddie Mac officials and its board members, the General Accounting Office, Congressional representatives, the state and city housing agencies, the State Banking Department, and the seller/servicers who actually made the loans. It also used the media to draw attention to Freddie Mac's overfinancing in the Bronx, and articles were published in Crain's New York and the Economist.

These efforts paid off: Freddie Mac toured Bronx buildings with the

NWBCCC in March 1989, and sat down with Affordable Housing Committee leaders for a serious negotiating meeting in October. Freddie Mac made several commitments:

- Inspections of 40 NWBCCC buildings.
- For future lending, a requirement that owners escrow money for repairs and identify funds for replacement of crucial building systems where necessary.
- A commitment that seller/servicers would work with tenant groups to resolve repair issues.
- A commitment to refuse to sell foreclosed properties to owners with "bad track records" and revoke the seller/servicer contracts of irresponsible brokers.
- In one foreclosed building, a promise that Freddie Mac would work with the receiver to replace windows through the NYS Weatherization program (NWBCCC 1990).

While these promises addressed most of the Coalition's concerns, it would be some time before they were fulfilled. Reminded of this list of commitments, Dailey said, "Well, that's the way we saw it. I think they sent me a letter disputing some of that. We had to fight a lot harder to get them to do that stuff." (Dailey, 2002).

In January, Freddie Mac announced a significant change in their underwriting criteria, lowering the percentage of a building's value an owner could borrow, a figure known as the loan to value ratio. They lowered the loan to value ratio from 80 to 60% in unsecured mortgages and from 80 to 70% in mortgages secured by brokers, thus increasing the owner's investment in the property and reducing the risk of the loan. In the Coalition's 1990 Annual Report, it refers to this as "our greatest victory thus far in the FREDDIE MAC fight" (NWBCCC 1990). These concessions by Freddie Mac implied a more fundamental one: that the Coalition had been right. Initially dismissive of the Coalition's charges that Freddie Mac's lending policies were irresponsible and would lead to deteriorated buildings and foreclosures, the corporation now appeared willing to take steps to prevent further foreclosures and to better handle those that had occurred. The Coalition began the second year of its campaign with what chairperson Phyllis Longworth called an "I told you so" meeting:

In January 1989, the Coalition held a large public meeting with three vice-presidents of Freddie Mac. Freddie Mac tenants and Affordable Housing Committee members tried to impress on Freddie Mac the dangers

involved in the outrageous mortgages they were giving Bronx landlords, but the Freddie Mac officials were confident that they had everything under control.

They knew what they were doing. The amounts they were lending weren't unreasonable. What did a bunch of tenants know?

Well, I hate to say it, but we told you so. (Phyllis Longsworth).

By that March 1990 meeting, Longsworth reported to 200 assembled Freddie Mac tenants that at least 16 buildings in the Northwest Bronx were being foreclosed by Freddie Mac. These foreclosures were symptomatic of larger problems in Freddie Mac's multi-family loan portfolio. "Freddie Mac's multifamily program had third quarter losses of \$81 million in 1990, which doubled the \$42 million losses in the first half of 1990. The \$278 million multifamily program losses for 1989 and 1990 were one half of the total losses for the period." (Oppenheim and Sierra 1994, 107n). As a result, Freddie Mac's Board of Directors shut down the multifamily lending program, and ceased making multifamily mortgages on September 7, 1990 (U.S. General Accounting Office 1991, 39).

After foreclosure, what?

Having won some important initial victories, the Coalition pushed for Freddie Mac to fulfill its promises, and also identified some new demands. The focus turned now to the fate of the foreclosed buildings. Would Freddie Mac's interest in getting the highest possible price lead to a second foreclosure? Would the new owner have the resources and interest to improve living conditions in the buildings? The NWBCCC urged Freddie Mac to view the foreclosed buildings as a way to fulfill the corporation's mission "to produce affordable housing for now and decades to come."¹

The Coalition pressed Freddie Mac to consider selling buildings to their tenants, or to non-profit community-based housing companies. In this effort, the NWBCCC was aided by the University Neighborhood Housing Corporation (UNHP), a nonprofit organization that provides technical and financial support for the sale of buildings to tenants and community organizations (www.unhp.org). Originally founded by Fordham University in

1983, UNHP expanded its efforts in 1988 when Jim Buckley of the Coalition's Reinvestment Project approached Fordham University for assistance in funding more local housing efforts. Both parties realized that as partners, they could accomplish more. Some Coalition representatives joined UNHP's board, and in Jim Buckley became the executive director of UNHP. Buckley explained that UNHP brought a crucial element to the discussion of the foreclosed buildings: "While not everybody at Freddie Mac differentiated UNHP from the Coalition, a number of key people did. They realized that we had the lending capacity and the track record to close loans." (Buckley 2002). Working with the Coalition's Affordable Housing Committee, Buckley and UNHP developed a proposal for community ownership of twelve foreclosed Freddie Mac properties.

Negotiating the purchase of these buildings was difficult. As Jim Buckley tells it, "They really wanted to offer us the buildings that were in the worst physical condition; we wanted the buildings that the Coalition was organizing in and where the tenants wanted community ownership.

Frequently, they were not the same buildings." (Buckley, 2002). Freddie Mac's resale unit naturally wanted to recoup as much as possible of their financial losses by getting the highest prices possible on the buildings. The length of time it took to arrange affordable financing through the City's Participation Loan Program also made community ownership deals less attractive to Freddie Mac. Nevertheless, Buckley says they "got good prices" on the first five buildings -- -- 1985 Creston Avenue, 1995 Creston Avenue, 240 East 175th Street, 21 East Mosholu Parkway and 365 East 209th Street.

The last two buildings converted to community ownership were 263 East Tremont Avenue and 1911 Anthony Avenue, neighboring buildings in dismal condition. In 1995, tenants from the two buildings had a demonstration at Freddie Mac's New York office which garnered some publicity. UNHP was then able to negotiate a purchase, and set out on what became a two-year effort to arrange financing for the properties. "At one point, when it looked like we would miss the deadline given by Freddie Mac to sell, D'Amato wrote a letter to Brendsel thanking him for Freddie Mac's work and cooperation on this building. His staff told us that when told that the deadline might be a problem that D'Amato said it would be better to thank Brendsel in advance putting him on notice that D'Amato was aware of the building, than it would be to get Freddie Mac to reverse course if they tried to bail out of the contract due to the missed deadline" Buckley said, noting he

had "little doubt" that the buildings remained available because of Senator D'Amato's intervention (Buckley, 2002).

Where tenant ownership was not possible, NWBCCC emphasized the importance of choosing reputable landlords with the resources to do the necessary repairs. The Coalition demanded that Freddie Mac research the previous track records of prospective buyers to weed out those who would not be responsible landlords. In response to Coalition pressure, Freddie Mac created an "exclusionary list" in 1992 of people and organizations it refused to do business with because of their past actions. Nevertheless, there have been some serious disappointments. Despite an alleged 20-year history of tax foreclosures, fraud, poor management, inadequate services to tenants, and even charges of arson, Jake Selechnik, long known to the Coalition as Jake the Snake, was able to buy five buildings in foreclosure from Freddie Mac between 1991 and 1994. Although he was on Freddie Mac's exclusionary list, NWBCCC charged that he managed to buy the properties through a third party.

A resumption of multi-family mortgage lending was another important goal; sensitive to the problems of disinvestment because of its history, the Coalition felt that Freddie Mac, having realized its errors and changed its underwriting criteria, could responsibly meet the mortgage needs of the neighborhoods. This was particularly important because the Coalition also wanted Freddie Mac to refinance bad mortgages they had made in the 1980s, so that owners could maintain and upgrade their properties without hiking rents to unacceptable levels.

The NWBCCC continued to use tenant organizing, large public meetings or actions, and smaller negotiations to pursue its goals. Tenant organizing continually brought new leadership to the issue. The large public meetings and actions demonstrated the Coalition's strength to its targets, and kept the campaign's participants focused on the broad policy agenda. In the smaller negotiation meetings, specific agreements were hammered out with Freddie Mac, and to a lesser extent, other targets. The Coalition organized numerous tours of Freddie Mac buildings, showing politicians, Freddie Mac representatives, and state and city housing officials the housing conditions which resulted from overfinancing.

Some tenant associations found that landlords had charged them illegally

high rents, and applied for a Freddie Mac loan on the basis of that income. In several foreclosed buildings, Coalition organizers Mary Dailey and Milagros Silva convinced Freddie Mac to roll back the rents to legal levels. Dailey said, We threatened to file rent overcharge complaints with the State, and then they would have been liable for treble damages. In 2108 Ryer Avenue, 2200 Tiebout Avenue, 21 W Mosholu Parkway, Freddie Mac told receivers to correct the rents of tenants who'd been overcharged (Dailey, 2002).

When Freddie Mac failed to follow through on its commitments, the Coalition employed another tactic -- the "hit." A hit is a surprise visit to a target, usually one who has ignored the organization's requests for a meeting, or failed to keep commitments. The purpose of a hit is to get an otherwise reluctant party to the negotiating table. In October 1990, a year after their Washington DC meeting with Freddie Mac officials, a busload of Coalition members traveled to the corporation's Reston, Virginia offices, sailed past security guards into the executive offices, and demanded to see CEO Leland Brendsel. Startled Freddie Mac staff promised they could see Brendsel if they would wait in a conference room until he was finished with other business. The wait was long, but worthwhile: the group met with Brendsel, who took quick action to make the promises of October 1989 become realities. Mary Dailey said, "The inspections started to really happen. Freddie Mac hired this guy Bob, and he was out every day doing inspections. It was great. And when they foreclosed on 2200 Tiebout Avenue and 2108 Ryer for lack of repairs, something almost unheard of, that sent shock waves through the local landlords." (Jonnes, forthcoming, 426).

The GAO Report

At its very first public meeting on the issue in January 1989, the Coalition had asked for the General Accounting Office to audit Freddie Mac's lending activities. Such requests, however, must come from members of Congress. In September 1990, Senator Alfonse D'Amato, and Representatives Eliot Engel, Jose Serrano and Ted Weiss requested an audit. The Coalition provided the GAO with a list of 35 troubled Freddie Mac buildings, which the GAO examined in order to determine whether Freddie Mac had overfinanced the buildings, and whether the corporation was "adequately protecting its investment." (US GAO, 1).

In October 1991, the GAO released its report, headlined "Abuses in Multifamily Program Increase Exposure to Financial Losses." The report

criticized Freddie Mac's lending and servicing procedures. On 27 of the 35 buildings they examined, the GAO found that Freddie Mac had accepted appraisals which overvalued the properties. This led Freddie Mac to overfinance the properties -- in five cases, the loan exceeded the total value of the property. Appraising real estate is a fine art with much room for subjective judgment; however, the GAO blamed inaccurate or incomplete information for much of the overvaluation -- appraisals included "inaccurate information on the sales dates and prices of comparable properties used to estimate market value", overstatements of annual net income, "understatements of the rates of return that borrowers expected on their investments," and failed to include negative information about the physical condition of the building or the surrounding neighborhood (US GAO, 5).

The report offers some telling examples. In one case, the GAO reports that an owner failed to report that he had purchased a building for \$975,000; instead, he reported that it was appraised one month later for \$3,261,066 (US GAO, 6). This led Freddie Mac to purchase a \$2,475,000 mortgage on the property, on which the landlord subsequently defaulted. One appraiser, in describing the neighborhood surrounding two buildings, failed to mention that there were five vacant buildings within a one-block radius (US GAO, 31) The report notes, "Freddie Mac accepted appraisals on 6 ... properties from an appraisal company whose president's candidacy for membership in the American Institute of Real Estate Appraisers had been terminated for unethical behavior." (US GAO, 7). All six appraisals included inaccurate information.

The GAO blamed property owners, appraisers, and seller/servicers for providing false information to Freddie Mac, and referred some property owners to the U.S. Attorney's Office for possible prosecution for fraud. It also held Freddie Mac responsible for failing to catch the deceptions. The GAO concluded that a lack of internal controls, and "inadequate standards for evaluating the reasonableness of appraisal methods" left Freddie Mac "vulnerable to unprofessional practices by seller/servicers, appraisers, and/or borrowers" (US GAO, 7).

The GAO report gave credibility to the Coalition's analysis of Freddie Mac, and the Coalition worked to see that it was widely reported in the mass media and the financial press. Of course, by the time it was released in October 1991, the Coalition had achieved many of its goals, a spate of foreclosures had made Freddie Mac's problems public knowledge, and Freddie Mac had

already changed its lending criteria to prevent a reoccurrence.

Going to the Stockholders

As more and more Freddie Mac buildings went into foreclosure, the Coalition's concerns about the resale of buildings became more urgent. The most desperate case was 1800 University Avenue. It was alleged that the landlord, Ike Portnoy, had borrowed \$1.4 million from Freddie Mac, cut services, rented to drug dealers, and walked away. Freddie Mac foreclosed on the property, and appointed a receiver to manage it. The 60 unit building had 12 vacant apartments when Freddie Mac foreclosed; the receiver proved unable to provide emergency services or coordinate narcotics information with the police, and the occupied apartments dwindled to 11. So many windows were broken or missing that from the sidewalk, one might think the building was vacant. Could the building be rescued? The Coalition tried everything. They convinced Senator Al D'Amato and the Bronx Congressional delegation to pressure Freddie Mac to be responsible for fixing the mess they had helped to create at 1800 University Avenue. They brought New York Police Commissioner Lee Brown, and Housing Deputy Commissioner Robert Davis to see it. And at one point the Coalition organized a prayer vigil in front of the building,, bringing together people from all across the Coalition to support its most endangered group of tenants.

Key to rescuing the building was a coordinated plan to get rid of the drug dealers. Coalition leaders and residents of the building toured the building and sat down for a meeting with Todd Sibley and Rich Mason of Freddie Mac's Real Estate Owned unit, who were responsible for buildings in foreclosure. The NWBCCC and the tenants presented a written plan to save the building, but Sibley and Mason wouldn't agree to it. Once the two men left, the neighborhood leaders headed off to "hit" the offices of two Freddie Mac board members -- one in White Plains, the other in Stamford, Connecticut. That -- and a front page article in a mortgage industry newsletter -- spurred a change in attitude at Freddie Mac. At the Coalition's request, NYPD Bronx Borough Commander arranged a meeting between the Federal Drug Enforcement Agency, the U.S. Attorney's Office, the Bronx District Attorney, Freddie Mac, and the receiver. As their contribution, Freddie Mac had to pay armed security guards to protect the building once the law enforcement agencies had removed the drug dealers.

Frustrated with Freddie Mac's lack of accountability on foreclosed buildings,

the NWBCCC made its last big push in the campaign in the spring of 1992. Carrying the proxies of a Catholic religious order which held shares in Freddie Mac, Coalition members attended the May 1992 stockholders' meeting. They once again pressed their demands that Freddie Mac allow tenant/community purchase of foreclosed buildings, and sell buildings only to responsible owners. Shortly after the meeting, Freddie Mac sold 1800 University to a decent landlord who commenced renovations.

The stockholders' meeting got the Coalition another serious negotiation with CEO Leland Brendsel. In June, Brendsel toured the Bronx with the Coalition, seeing both Freddie Mac buildings and neighborhood development victories that the Coalition had been involved in. He also sat down and heard their demands. A month later, he returned to respond in detail, and took steps to address the Coalition's concerns. Although the Coalition continued meeting with and talking to Freddie Mac officials after that, the campaign wound down, and the Coalition moved on to other issues.

Accomplishments

The long campaign had produced much fruit. Between 1992 and 1997, seven buildings foreclosed on by Freddie Mac were sold to non-profit neighborhood-based corporations committed to maintaining affordable housing. NWBCCC pressure had held Freddie Mac to its promise not to sell buildings to people with bad reputations, although in some cases they were unsuccessful. In some buildings, the Coalition successfully demanded that a new private owner be required to establish an escrow account to cover significant repair needs. In many buildings, whether the property changed hands or not, tenant associations got Freddie Mac to enforce the good repair clause, winning repairs, better maintenance or even building-wide capital improvements.

Looking beyond particular buildings, the concessions the Coalition won from Freddie Mac provided new strategic tools to tenant associations. Freddie Mac's commitment to do roof-to-cellar inspections and follow up on violations with the building owner when asked by a Coalition-organized tenant association, for example, is very useful in building organizing. Freddie Mac was made a standing commitment to make inspections upon request (an agreement the NWBCCC had with some banks in the 1970s), and that agreement served as a model for a more recent NWBCCC agreement with North Fork Bank.

Most significantly, Freddie Mac took several steps to make healthier loans. Very early in the campaign, they had lowered the loan to value ratio of their loans. This is a common step lenders take to minimize their risk. In the particular case of Freddie Mac, however, buildings had been overfinanced not because Freddie Mac allowed too high a loan to value ratio, but because borrowers had provided false information to make the loan to value ratio seem lower than it actually was -- the problem that the GAO recognized in 27 of the 35 mortgages it examined. To avoid this in the future, Freddie Mac established a Mortgage Fraud division in 1990, and contracted with a private company to screen its loan applications for fraud (Howe, 1992).

From the beginning of the campaign, the Coalition's fundamental goal was not to drive Freddie Mac money out of the Bronx, but to see that the corporation's money was spent responsibly, in a way that encouraged decent, affordable housing. Throughout the campaign, the Affordable Housing Committee encouraged Freddie Mac to make loans in the Bronx. Freddie Mac made several tentative steps toward re-entering the multi-family market in 1993, announcing a pilot program in September (National Mortgage News, September 20, 1993), and in November announcing that it was "ready to reenter the market" (Carroll, 1993, 29). In 1994, Freddie Mac resumed purchasing multi-family mortgages, and the Coalition continued advocating for its investment in particular properties where Freddie Mac financing could play a positive role. NWBCCC President Dalma DeLaRosa closed a 1994 letter to Freddie Mac president Leland Brendsel,

Once again we remind you that Freddie Mac has a very long-term investment in our community, one that we hope would increase with the purchase of new multi-family mortgages. The proposals we have brought to the corporation over the last six years are good for our neighborhoods, for the long-term financial interest of the corporation and furthermore assist the corporation in meeting its mandate to assist the creation of affordable housing. (May 6, 1994, NWBCCC Archive.)

The campaign to hold Freddie Mac accountable is a great example of the Northwest Bronx Community and Clergy Coalition's ability to take on a large, complicated issue, and force change in the policy of an entity far removed from the neighborhood. The NWBCCC not only got Freddie Mac to make specific concessions to buildings it had organized, but forced the

corporation to improve its underwriting and supervision of multi-family mortgages to prevent similar overfinancing and foreclosures in the future. The Coalition's ability to quickly recognize the potential dangers of overfinancing was crucial to preventing long-term damage to neighborhood housing stock as a result of Freddie Mac overfinancing. It used the organizing tools it had used to combat underfinancing in the 1970s to successfully confront a new threat.

Chief among the strategic choices the Coalition made was the decision to educate large numbers of people about the issue. It can often be tempting for organizations, organizers and leaders to reach out broadly to people only on the simple issues. Complicated issues are either ignored, or are dealt with by staff and senior leadership. The NWBCCC chose to reach out broadly to tenants in Freddie Mac buildings, and dramatize the connections between everyday concerns about decent housing and affordable rents, and the complicated mortgage relationships that underlay them. In choosing to take on the issue, and to do mass organizing around it, Coalition leadership and staff trusted that their neighbors would understand the issue and commit energy to working on it. The Coalition's power on the Freddie Mac issue, as on most issues, comes from its large membership. While much was accomplished in small negotiating meetings, it was the 300-person meetings and surprise "hits" that got Freddie Mac officials to the table. By confronting Freddie Mac, the Coalition was able to lessen the negative impact of its overfinancing on Bronx neighborhoods.

Note

1. Northwest Bronx Community and Clergy Coalition Statement to Congress about Freddie Mac, 1991, NWBCCC Archives. This is apparently a quote from the Freddie Mac mission statement. Freddie Mac's current website bears the slogan "Making the American Dream of decent affordable housing a reality" (www.freddiemac.com).

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