



Community Investment Corporation • Chicagoland's Leading Multifamily Rehab Lender

# DEVELOPMENTS

## cic, City battle effects of condo fraud

### First, it was troubled buildings. Now, it's condo fraud.

CIC has joined forces once again with the City of Chicago, this time to reclaim buildings lost to the city's housing stock due to fraudulent practices in condominium development. In a pioneering program that is the first of its kind in the country, CIC subsidiary Community Initiatives, Inc. (CII) has a three-year contract with the Chicago Department of Community Development (DCD) to acquire condo units in targeted multifamily properties and put the buildings back into productive use.

Virtually all of the targeted condo units are vacant units in vacant buildings. They are the result of "condo fraud," a little known practice that flourished in a reckless lending environment which contributed significantly to the national mortgage meltdown.

"Our first experience with condo fraud occurred when we were looking at vacant multifamily buildings, and we'd find that the building had recently been divided up into condominium units and sold at inflated prices," says CII Vice President Angela Maurello. "We wouldn't be able to locate either the original developer or the condo buyers, and the lenders would be holding non-performing loans in vacant buildings."

Under the new program, the City is providing \$2 million for CII to buy individual condo units from lenders. The funding comes from the CDBG-R portion of the federal stimulus program authorized by the 2009 American Recovery and Reinvestment Act. Because the condo units are generally located in vacant buildings, they have very little value to the lenders. The fact that there are typically multiple lenders in a single building, however, makes it difficult and time consuming to acquire all of the individual units and reassemble a property into a single legal entity. The City contract enables CII to pursue a long-term strategy to reassemble the properties. After CII acquires all of the condo units in a building, it will sell the building to a private developer who will rehab the building to provide affordable rental housing.

"Fraudulent condominium development has effectively taken valuable buildings out of the housing stock of Chicago," says DCD's First Deputy Commissioner Ellen Sahli. "Now, the vacant buildings are unusable and a blight on their communities. We need to restore them as community assets and affordable housing."

In addition to buying condo units through CII, the City is taking legal action against many buildings under the Illinois Distressed Condominium Property Act. This 2009 state law allows a judge to void a condominium declaration and issue a judicial deed for a building as a whole. The building could then function again as a rental building in the private market.

"Multiple strategies are necessary," says Sahli, "to combat the aftermath of the fraudulent development and lending practices that hurt our communities."

### What does condo fraud look like?

*Typical elements of condo fraud are:*

- Often, it is in a 6- to 18-unit building with large apartments
- Developer performed superficial rehab using his own cash (not a bank construction loan)
- Individual condo units were sold at inflated prices to "straw" buyers
- Home loans were provided by a wide variety of lenders in each building
- Loans were "seasoned" by keeping them current for 12 to 18 months to allay suspicion by lenders
- There is no functioning condo association
- Buildings are now vacant and vandalized
- Neither the original developer nor the "straw buyers" can be located
- Many lenders are unaware their non-performing loan is in a vacant building with other non-performing loans
- The vacant condo units in vacant buildings have very little market value



An uninsulated basement heating pipe

## Energy Savers: Owners save up to 40%

“For an investment of less than \$2,500 per unit, building owners are reducing their energy costs by up to 40%,” says CIC Senior Loan Officer James Lackland.

We’ve featured the Cook County Energy Savers program more than once in these pages. Energy Savers is a joint project of CIC and the Center for Neighborhood Technology (CNT), under a program which originated from The Preservation Compact. The Compact is a multifaceted effort funded in large part by the John D. and Catherine T. MacArthur Foundation to preserve affordable housing in Cook, and recently Lake, Counties in Illinois.

Upon request of a building owner, professionally trained auditors from CNT evaluate all systems in a building and give the owner a written report with recommendations, upfront costs, and payback estimates. CNT can also provide specifications and a contractor referral list, monitor construction, and conduct inspections if needed. To date, 262 buildings with 8,300 total units have been audited, of which 1,500 units have completed energy rehab and another 1,500 units have rehab in progress.

These energy improvements may be financed at a special low interest rate by CIC. As of mid-January 2010, CIC had lent \$1.68 million for Energy Savers rehab in 29 buildings with a total of 772 units. Another eight buildings with 250 units currently are in the pipeline for nearly \$600,000 in CIC loans.

Owner Lou Sopic notes, “I think Energy Savers is a great incentive for people to upgrade their buildings to a more efficient system, like we did at The Broadmoor, our building on Bosworth Avenue, that otherwise would not be affordable any other way. For the minimal investment you make using this money, the turnaround is rather quick.” Sopic continues, “Hot water heating gives you the best return of therms [compared to any other system] for costs related to heat energy.”

### There are many building features eligible for Energy Savers:

- Exterior and interior insulation
- Energy-efficient windows
- Improving boilers, insulating pipes
- Plumbing changes such as reduced-flow showerheads
- Electrical wiring and fixtures
- Compact fluorescent lightbulbs
- Digital thermostats
- New/repaired roofs
- Closing air leaks, and more

Although savings on heating fuel bills are usually the first thing which owners think of with Energy Savers, the program covers other less obvious sources of saving money as well. Below are a few sample buildings with the type of rehab and the dollar amount of savings on an annual basis:

ADDRESS	NO. OF UNITS	ORIGINAL UTILITY COST	POST REHAB UTILITY COST	SAVINGS	SYSTEM AFFECTED	COMMENTS
7234-42 S. Constance	25	\$32,710	\$19,797	\$12,913 (39%)	Fuel	Boiler, insulation
5304-06 S. Adams	12	\$12,694	\$9,121	\$3,573 (28%)	Fuel	Roof, insulation, radiator valves
712 W. Diversey	90	\$13,000	\$11,240	\$1,760 (14%)	Electricity	Common area lighting

TO DATE, **262** BUILDINGS WITH **8,300** TOTAL UNITS HAVE BEEN AUDITED, OF WHICH **1,500** UNITS HAVE COMPLETED ENERGY REHAB AND ANOTHER **1,500** UNITS HAVE REHAB IN PROGRESS

## North Side

A seven-story building with 90 units in Lincoln Park made energy improvements in many of the usual areas, including several forms of insulation, a new hot-water heating system, showerhead restrictors, and lighting. The owner invested about \$61,000 in improvements to systems which had an original annual cost of \$66,000 for annual projected savings of \$14,500, meaning the expense would pay for itself in less than five years.

Not so evident, however, is how seemingly-insignificant cost generators can turn out to be otherwise. In this building, for example, 21 of the legally-required “EXIT” signs had been lit by 40-watt lamps. Merely changing those to 4.5-watt compact fluorescents of similar brightness saved \$650 per year. Similarly changing the lighting in common areas saved nearly \$2,000 in annual electricity costs.

## South Side

A group of four South Side buildings with a total of 25 units saved 36% on total energy costs by making \$38,000 in improvements. The original energy cost of \$33,000 per year was reduced by \$10,000 per year, meaning that the investment would be completely paid for in less than four years by the savings.

“One thing I’ve learned is the value of roof insulation and air-sealing. The savings that could be had because of those particular items is quite good. No one ever talked about those types of projects before – at least I never heard them mentioned – and they can really enhance cash flow,” says owner John Brauc, who has used Energy Savers on several buildings on the South Side and North Side. “This kind of retrofit is valuable to any owner. It can make a project affordable which otherwise might not be.”



The heating bills for The Broadmoor are now 38% lower than before its retrofit. Owner Lou Sopcz plans further improvements under Energy Savers.

## West Side

On the West Side, the owner of a two-story building with 12 units has had annual energy costs of \$18,000, which an energy retrofit pared down by \$6,000 per year, cutting those costs by a third. The following is only a small sample of the changes which were recommended, in this case just for the common areas of the building:

- Weatherstrip, caulk, seal and install door sweeps at all front, vestibule, roof and other entrance doors
- Adjust chains/balances/locks on hallway windows and weatherstrip
- Repair/replace cracked glass, rotted wood, and putty
- Seal all penetrations into hallways that are unused
- Seal dumbwaiters in basement, hallways, and on roof
- Seal all unused chimneys on roof and in apartments
- Caulk skylights, window and doorframes, and other cracks
- Repair roof flashing as needed or where cracking

CIC lends money at a very reduced interest rate for improvements made under the Energy Savers program. Call Senior Loan Officer James Lackland at 312.870.9925 for information on the Energy Savers program and for loan information.

John Brauc owns this Logan Square building with 26 quality, affordable and energy-efficient apartments. Energy-related rehab work included: new windows, high-efficiency hot water tanks, six furnaces, high-efficiency shower heads, thermal exterior doors, and high-efficiency hallway light fixtures and bulbs.

## “How can people live in those buildings?”

### How did you get into this business?

I first started working to improve conditions at troubled buildings as a citizen volunteer with the Chicago Alternative Policing Strategy (CAPS). My interest in housing issues intensified while I was attending Northwestern Law School, where I took a number of seminars in housing policy with Professor Len Rubinowitz. After interning with Mary Jane Haggerty in the Housing Action Program at the Rogers Park Community Council, I knew that I wanted to continue working on housing issues in the nonprofit or government sector after graduation.

### How did you come to work at cic?

In the fall of 2002, I was chosen to represent the Third Police District at a series of citywide meetings of housing advocates. The purpose of the first meeting was to define the issues that made improving conditions at these buildings difficult and lengthy; it was held in Judge Sebastian Patti’s courtroom but overflowed into the hall. The purpose of the second meeting was to propose possible solutions and was held in City Council Chambers. The experience of addressing a panel of judges, deputy commissioners, other officials and fellow citizens was phenomenal. After that meeting, I met CAPS Assistant Director William Townsell. He told me about a new program the City of Chicago was starting with Community Investment Corporation and suggested I apply. Needless to say, I was thrilled when CIC offered me the opportunity to become the first program officer for the Troubled Buildings Initiative!

### What’s your favorite part of working at cic?

My favorite parts of working at CIC are the people I work with and the work we do. While the focus and methods of TBI differ from CIC’s core business of mortgage lending and servicing, we are all working toward the same goal: to improve housing and neighborhoods for the people who live there. I spend a lot of time in the field. Not only do I see the difference our efforts make – I hear about them first-hand from tenants and neighbors. I’m always proud to say I work for CIC on the TBI program.

### What changes do you see on the horizon for this business?

Given the current economic climate, improving the conditions at troubled buildings will take longer and require more intricate, creative solutions. A few years ago, most owners could sell a distressed building fairly quickly to a “flipper” or condo developer. But now, financing is difficult to find; values and optimism have declined. So I think more projects require government programs and public funds.

### What is something interesting about you that most people don’t know?

When I was a poor student studying literature, I lived in a few troubled buildings because the location was good and the rent was cheap. The worst one was classic. I lived in the last habitable apartment on the third floor of an impressive graystone. My apartment was cute: it had lots of natural light and excellent heat. But the maintenance man was a drug addict; the first-floor tenants were prostitutes; and shortly after I moved in, the owners started a gypsy rehab of the second floor. I remember it every time someone asks me, “How can people live in those buildings?”



Cathy Gerlach, Program Officer,  
Troubled Buildings Initiative/  
Community Initiatives, Inc.

# cic works hard to hasten the return of sunny days

It's another frigid day in Chicago. We haven't seen the sun in a long time. While there may be some signs of an emerging recovery, the economy is still in the Dumpster. The winter doldrums have a grip on us all. At CIC, however, we're responding to this winter's challenges and working every day to make things better.

In the midst of great economic challenges, CIC continues to offer steady, predictable capital for affordable housing and community development throughout the Chicago area. CIC is maintaining the vital flow of credit for communities that need it most. Thanks to our investors, CIC continues to have access to money. And our hands-on staff continues to provide property owners with the tools necessary to survive and prosper in spite of today's difficulties.

One of the most obvious ways for owners to reduce operating costs in their buildings is to implement energy saving retrofits. Through the Cook County Energy Savers program, many owners have invested small amounts of money to reap big savings on their energy bills (see pages 2-3). This program makes buildings more energy efficient and better able to withstand economic turbulence as well.

Throughout Chicago, vacant, abandoned buildings demonstrate the impact on communities of the recent era of reckless lending and the resulting economic crash. One particularly nettlesome problem is the empty, subdivided

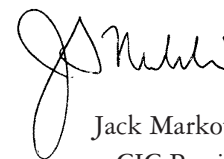
buildings left behind by condo fraud. Under a new three-year program, CII is buying distressed condos and reclaiming Chicago's multifamily housing stock (see page 1).

Our efforts to acquire distressed condos grow out of the Troubled Buildings Initiative. Since 2003, CII has intervened to improve conditions in 460 buildings with more than 9,000 units of affordable rental housing. Cathy Gerlach is a great example of our dedicated, expert staff working to make things right in Chicago (see page 4). And Taft West, "Mr. Property Management," continues to provide information and tools for building owners to succeed (see below).

Sure, the weather's cold, the days are short, and the recession lingers. But CIC is working hard to hasten the return of warm, sunny days and a renaissance of Chicago neighborhoods.

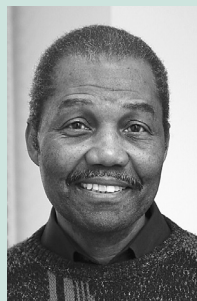


Jack Markowski



Jack Markowski  
CIC President

## TIPS FROM TAFT: Ice dams



Taft West, Director of Property Management Training

**Q:** Taft, this winter I've noticed that an inside wall on the top floor of my building has signs of water damage, but I can't figure out where it's coming from. Any ideas on this?

**A:** It sounds like you have an "ice dam," which forms when heat melts snow on the upper reaches of the roof. The water runs down under unmelted

snow on the roof overhangs and refreezes at the roof's edge, which is much colder because it is not warmed by the building beneath. Insulated by a blanket of snow, this ice prevents the subsequent melt-off from draining into the gutters, causing water to back up under the roof shingles and work its way into the building, damaging the roof and interior.

Look inside for a damp ceiling or wall area in winter. From outside, if the snow has holes or thin areas, with icicles hanging from the eaves, suspect an ice dam. Four ways to prevent ice dams are:

- Keep the attic cool.
- Seal off air to the attic.
- Increase attic insulation.
- Rake snow from the roof.



**Learn About  
Condo Fraud**  
See page 1



# cic RATE WATCH

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