BACK *From the* BRINK

The Dorie Miller co-op gets a new lease on life

BY PAULA CHIN

It is the rare co-op that is named after a true hero, and the Dorie Miller Cooperative is one of them. Doris "Dorie" Miller, was a World War II Navy man and the first African-American to receive the Navy Cross for his actions at Pearl Harbor. Miller was known for his perseverance and bravery, and his legacy is now being carried forward by the multiethnic enclave in Corona, Queens, that bears his name.

That was not always the case. Not long ago the co-op defaulted on its $11 million mortgage, owed more than $600,000 in property taxes and the same amount in water and sewer charges. It had shareholder arrears of $1.2 million, and in 2019 its lender threatened foreclosure.

The Road to Ruin

In 2019 Darlene Morgan, a legal assistant, had served on the nine-member board for two years. "I remember leaving the building one day and seeing servers post notices on all the doors," she recalls. It was the first time that she, along with most of her fellow directors, learned about the impending foreclosure. "There was a really tight relationship between the board president and the management company, which always seemed odd," she says. As it turned out, it was. Both parties had been keeping shareholders in the dark about the co-op's mounting financial woes. The co-op had secured a $10.1 million capital improvement loan in 2013 from the Community

The Dorie Miller team, from left: Litsa Douris of Metro Management, the co-op's on-site property manager; Darlene Morgan, board president; and Michele Chaffin, board vice president. *(Photo by Lorenzo Ciniglio)*

Preservation Corporation (CPC), a nonprofit affordable-housing lender, that was structured to convert to a permanent mortgage after the co-op had completed building improvements.

But the board never carried out the repairs at the six-tower complex and paid fees to extend the loan three times. "The initial arrears had started in late 2014," says the co-op's accountant, Rich Montanye, a partner at Marin & Montanye. "The board was making mortgage payments and paying some of its bills, but it just kept accumulating these debts that it was pretty much ignoring. Things were coming to a head."

The tipping point came in May 2019, when CPC filed a notice of default and stopped accepting the co-op's payments. "It was clear the wolf was finally at the door, but the board still refused to do anything," Montanye says. Frustrated by the board's inaction, he reached out to the co-op's longtime attorney, Geoff Mazel, a partner at the law firm Hankin & Mazel. "The loan extensions had been pro forma for years, and then suddenly CPC just brought the hammer down," he says. Mazel managed to persuade CPC to hold off the foreclosure as long as the board could show it was making an effort to refinance with another lender and to pay down its debt. In February 2020, the board and CPC negotiated a standstill agreement under which the co-op paid CPC a one-time fee of $100,000 and monthly payments of $55,000, as well as monthly payments of $25,000

GOOGLE MAPS

Six towers in Corona: The Queens complex opened its doors in 1953.

toward its outstanding real estate taxes and water and sewer charges, until the co-op was able to obtain a new underlying mortgage.

Course Correction

Not surprisingly, that would prove to be an uphill battle. The co-op enlisted the services of Pat Niland, the president of the mortgage brokerage First Funding of New York, who began the hunt for a new lender. "Just putting together a clear picture of the co-op's finances took months because I couldn't make sense of the management reports," he says.

As Niland parsed the numbers, it became clear to him that the board was either distracted from or misunderstood its fiduciary duties and that management had not prepared reports that made clear the co-op's serious financial troubles. "The shareholder arrears were especially abysmal, because a lot of them involved estates where people just weren't paying and the board hadn't bothered to pursue them," Niland says. "That kind of situation is absolute poison to lenders. I got quick noes from everyone I approached."

In the meantime, the news of the looming foreclosure had galvanized the shareholders into action. After several emergency meetings, a new board was elected, with Morgan as president. It moved swiftly to right the ship, first by replacing the old management company with Metro Management. "In the beginning, we were just putting out fires," says Michele Chaffin, the board's new vice president. "Vendors were coming out of the woodwork saying you owe us this, you owe us that. Normally when a new board comes in, there's a formal turnover where the previous board tells you who the vendors are, what's been paid and what hasn't. But the old board didn't help us at all."

Understanding the seriousness of the situation, the co-op promptly enacted an 8% maintenance increase to cover ongoing expenses. Working closely with Metro Management, it was able to negotiate payment schedules with vendors for outstanding bills.

The next challenge was addressing shareholder arrears, which by then had grown to $1.7 million. "This is a property with 300 units, and 85 of them were in arrears, including 45 estates," says Matthew Goldberg, a partner at Hankin & Mazel, who was brought in to help the board crack the whip. "We got very aggressive in court and won judgments of possessions for a number of apartments," he says. The co-op also played hardball when working out settlements with delinquent shareholders. "In every case, we recouped at least 95% of what was owed," Goldberg says. "As for the rest of the units, we put together a timeline of what legal actions we were going to take and when we expected everything to be resolved. Nothing was left lingering."

Fits and Starts

After months of hard work, the co-op's efforts started to pay off. In September 2020, the board and CPC executed an agreement that discontinued the foreclosure and extended the maturity of the co-op's existing loan for one year; it also allowed the co-op to resume sales of apartments that it had taken back from estates and delinquent shareholders. The co-op's growing financial stability, in turn, gave Niland more leverage as he continued the search for a new mortgage lender. In April 2021, the board got the news it had been hoping for: Niland had found an interested lender who agreed to issue a formal Fannie Mae application to the co-op for an $18 million loan.

But time was of the essence. The application had to be submitted within 10 days, and Niland suggested setting up a meeting so he could answer any questions. The deadline came and went. In June, at the board's request, Niland requested a second application, but the board missed that deadline as well. "This back-and-forth went on for months," he says. "It turned out some board members were holding out because interest rates were moving and they were hoping to get a loan with a lower rate."

The following year, in March 2022, Niland decided it was time to light a fire. "I was looking at rising interest rates and what that meant for the co-op," he says. "I wrote a three-page email explaining that if it had acted on the loan application in June 2021, the co-op's annual interest cost would be X amount, but today it's $120,000 more. And the cumulative increase over a 30-year loan, which is what the board was looking for, was almost $3.6 million."

Laying out the cold hard numbers did the trick. The board submitted its application in April, by which time the co-op's financial picture had significantly brightened. The $25,000 monthly payments to CPC had reduced its real estate and water and sewage arrears to zero. Collection of past-due maintenance and sales of estate apartments have whittled down arrears by 75%, to less than $500,000. As a result, the co-op was able to reduce its loan amount to $17 million. In September 2022, after a three-year struggle, it secured a letter of commitment for a new mortgage. The Dorie Miller had succeeded in pulling itself back from the brink.

Almost at the Finish Line

There was, however, one last hurdle to clear. The new loan would require raising maintenance by a projected 13%, but at a board meeting to formally approve the commitment, several members balked. They said they were unaware of the increase and were concerned that it could not be sold to the shareholders.

That's when Victor Fuerst, the director of finance at Metro Management, stepped in and

LORENZO CINIGLIO

proposed a solution. "The projected maintenance increase was based on the co-op's gross real estate taxes," he says. "But if you based it on net real estate taxes — that is, after the co-op received the co-op tax abatement credits — the increase was actually about 7%." Then, when the co-op tax abatement credits are distributed to the shareholders, an offsetting assessment would be implemented to recover the revenue. Making things even more palatable, Fuerst suggested that the co-op raise maintenance by just 3% and impose a 4% assessment. "Insurance is inflated right now and so are utilities," Fuerst said. "So I suggested the assessment because both of those costs might come down. If costs stay high, the co-op always has the option of integrating that into the maintenance next year. In the meantime, implementing a smaller maintenance increase, at least for now, will keep apartments more marketable."

Back to the Future

The co-op closed on the $17 million loan in October 2022, completing its long journey back to solvency. With money in hand, it can finally tackle a long list of capital improvements, including replacing the boilers, facade repairs and updating the vestibules by changing access controls and installing a security system. "The boiler project is already well underway," says Morgan, the board president. "We hired an owner's rep, DBI Projects, and everything is going smoothly and right on schedule." Painting the hallways and doors and installing fencing around the complex's outside courtyards are also on the agenda.

"These are all major jobs that should have been done in the past, and the goal is to complete them within the next three years," says Litsa Douris of Metro Management, the co-op's on-site property manager.

It's not just the buildings that are getting an uplift. The mood among shareholders, Douris adds, has undergone a sea change since she began working for the co-op three years ago. "They were so upset and angry at the board and how things were mismanaged," she says. "Now shareholders come to my office not only when they need to go over their accounts or something needs to be fixed in their apartments, but also to just sit and chat."

Chaffin, the board vice president, is grateful that people can once again feel secure in their homes. "My grandparents were original shareholders at the Dorie Miller, and I practically grew up here," she says. "It's important that we build a strong community for middle-income residents, and now we can continue to do that."

For her part, Morgan, who is the assistant to the pastor at the nearby Mount Horeb Baptist Church, never doubted the co-op's future. "I always had great faith," she says, "that we could turn things around." ■