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Memphis Slum Bond Default Spurs Effort to Oust Property's Owner.

A ministry that owns and manages two low-income apartment complexes in Memphis that were infested with roaches, littered with sewage and replete with broken windows and damaged walls, must be removed, said the trustee for municipal bondholders that financed the complexes.

The trustee, Bank of New York Mellon Corp, sued the owner, Global Ministries Foundation, in U.S. court on May 6, seeking the appointment of a receiver to take over, improve the apartments and sell them. In March, the U.S. Department of Housing and Urban Development cut off rent subsidies for more than 1,000 residents and said it would relocate them because of numerous health and safety violations. As a result, about \$12 million of bonds backed by the subsidies defaulted, causing the price to tumble to as little as 21 cents on the dollar.

"Unless the borrower is removed, further payments from HUD will not be forthcoming in a very short while and once funding is stopped, the only recourse to the bondholders will be to the collateral itself, which deteriorates further every day," the trustee said in the suit. "Most importantly, however, a third party receiver needs to be appointed who can attempt to improve the living standards of the residents."

GMF, a Tennessee non-profit run by a Baptist minister, has raised \$400 million through one of the riskiest corners of the municipal-bond market — local agencies with few, if any, employees and that exist only to sell tax-exempt debt for a fee. It owns and operates 60 multifamily complexes in 8 states.

The ministry allowed conditions at the Memphis complexes to deteriorate, failing to address health and safety violations that federal housing regulators found in April and December 2015. The April inspection of 30 buildings and 25 units revealed "life threatening" breaches including exposed wires and blocked emergency exits, as well as buckled ceilings, cracked windows and leaking pipes. HUD said GMF failed to correct the violations and stopped the subsidies in February.

Richard Hamlet, GMF's president, said he disputes many of the allegations in the lawsuit, without identifying the particulars. The ministry is in favor of appointing a receiver because "it is in the best interest of the properties and the residents," he said in an e-mailed statement.

"GMF has invested millions of dollars in these historically troubled properties, but unfortunately we were not successful," he said.

Bank of New York has requested proof that funds were spent to improve the apartments, but has only received a ledger showing payment of certain amounts, the suit said. The bank also alleged that GMF misappropriated \$625,000 of insurance proceeds after a June 2015 fire at one of the apartment complexes, saying it failed to give notification about the fire or provide a copy of the insurance claim. The bond contracts require insurance proceeds to be paid to the trustee.

Bank of New York recommended that Donald Shapiro, who runs Foresite Realty Management, be

appointed as receiver. Foresite has experience with federally subsidized low-income housing and has served a receiver in Memphis, Bank of New York said.

Bank of New York's suit was reported May 10 by the Commercial Appeal of Memphis.

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