Signature's toxic loan portfolio is looking cleaner. For now.

More than half of the rent-stabilized loan book has been modified, but looming foreclosures could test a $560 million repair fund

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Nov 2, 2026, 7:00 AM EST

When Signature Bank's "toxic waste" headed to the fifth-highest bidder in a blockbuster sale three years ago, city, state and tenant groups treated the deal as done and dusted the day it closed.

The waste was loans backed by New York City's rent-stabilized buildings. Signature's collapse, the third-largest bank failure in American history, exposed the distress that stained the book.

Advocates and electeds had pushed for a nonprofit owner that would preempt foreclosures. The Federal Deposit Insurance Corporation whipped out a mandate to preserve affordability so it might pick a mission-driven organization regardless of how much it bid.

And on Dec. 15, 2023, it settled on Community Preservation Corporation, a picture-perfect fit with 50 years' experience making rent-stabilized loans, through a venture that included Related Fund Management. The nonprofit Neighborhood Restore joined as a strategic consultant.

"There is no doubt that this partnership will stabilize the finances and improve the condition of these buildings," Homes and Community Renewal, the state housing agency that oversees rent-stabilization law, said in a statement on sale day.

It was like a futurecast: Crisis averted; everyone goes home happy.

Meanwhile, the CPC venture had been flung into "startup mode," said CPC's Chief Strategy Officer Erin Burns-Maine. It had 60 days to set up servicing for $5.8 billion in rent-stabilized loans then launch into workouts for assets in secular decline.

It was fighting time, which it knew going in. CPC has its own rent-stabilized loan book and had been tracking the unintended consequences of the 2019 rent law on building bottom lines.

Still, it was optimistic, said Robert Riggs, CPC's senior managing director. CPC had reviewed preliminary loan tape from the FDIC that brokerage Newmark provided before it bid. It saw good loans alongside the bad. It thought the "toxic" talk was overblown.

On a September Zoom meeting with *The Real Deal* to review the state of the Signature book and understand a plume of foreclosures filed last year, Riggs was candid: When his team dug into the data, their optimism weakened.

When it won through the venture Community Stabilization Partners, CSP — the acronym to remember in this story — ran its own review of the collateral and found the earlier data was unreliable.

Net operating income had dropped from the income and expense data CSP had reviewed that summer alongside an FDIC-ordered limited appraisal of the deals. Now, 17 percent of the book was over 90 days delinquent.

"So the trends that were affecting all this housing stock, we were seeing the same thing," Riggs said. "Like this is deteriorating, not improving."

Screenshot

During the September check-in, CSP showed *TRD* its first full report card.

The venture had modified 56 percent of the loan book and shaved the 90-plus-day delinquency rate down to 13 percent from a peak of 24 percent in June 2025.

It had filed 54 foreclosures — equivalent to roughly 6 percent of the portfolio — but resolved half through workouts; a filing will often "vaudeville hook" a nonresponsive owner to the table.

"I thought a lot more people would say, 'Take the keys. I don't want anything to do with this."Robert Riggs, Community Preservation Corporation, on rent-stabilized owners

Critically, it has only taken one property back and used very little of a backup fund to do repairs on it, Riggs said. That piggy bank, monetized mostly by the federal agency, has $560 million in it, but has taken on an outsized meaning beyond the cash that it holds. It's now a key gauge of whether the FDIC's structured sale, joint venture and governing agreement were the right move.

Meaning, if landlords can fix physical distress with the extra cash workouts free up that would satisfy the FDIC's mandate to preserve affordable housing. The indicator that workouts are funding the fix-ups? A pot that stays liquid.

Foreclosures, though, are inevitable — the FDIC acknowledged that during marketing. The agency's operating agreement with CSP requires the loan manager to rehab anything it takes back. The only source of funding for that is the pot of money.

Foreclosed properties are typically those in the worst physical shape. Each figures to sap the capital fund.

When the sale closed, the overwhelming question was whether the pot would be big enough for the portfolio's needs. Back-of-the-envelope math signaled it could only cover a few thousand units in a portfolio of 35,000. But the real answer was: We'll have to wait and see.

CSP's first REO — real estate-owned property — taken back is clue No. 1 to whether the capital is enough.

On the chopping block

The asset is a six-story Manhattanville building owned by Douglas Peterson, principal of City Skyline Realty. The firm threw its hands up on a $316 million rent-stabilized portfolio years ago. Peterson made the mistake of buying months before the state passed the Housing Stability and Tenant Protection Act of 2019, the infamous rent law, and made it impossible to destabilize units.

It killed Peterson's business plan and that of many Signature borrowers. The bank specialized in making loans to "speculative buyers," as the housing coalition Association for Neighborhood and Housing Development characterized it in a brief when the bank failed.

Those owners would buy a building, evict rent-stabilized tenants, renovate the units and raise rents to a level where they reset to market rate. Then they'd roll the profits into their next purchase. Because the loans were underwritten on the presumption that values would soar, the revenue restrictions of the rent law decimated those deals financially and physically.

From the outside, it's unclear what kind of work the building, 1480 Amsterdam Avenue, needs. Though Riggs said it "is not in terrible shape physically." What might costs run CSP?

The building has 25 units; 10 are rent-stabilized.

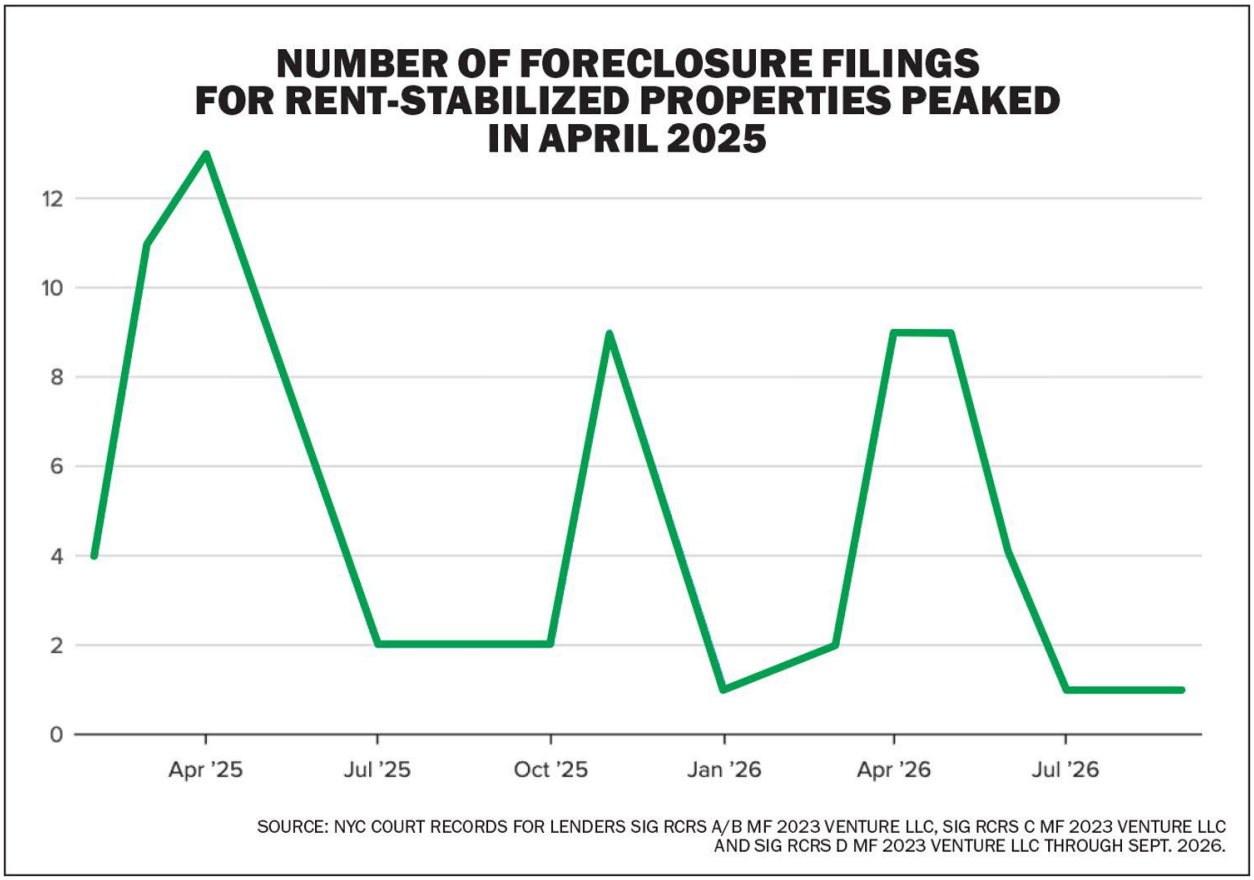
Repair costs for rent-stabilized units vary. But there are some comps. The average cost of repairs on Third Party Transfer properties, distressed buildings the city transitions to new owners, is $250,000 per unit, according to the Citizens Budget Commission. (See page 52.)

Neighborhood Pillars, which uses Third Party Transfer and is advising CSP, allows subsidies of up to $380,000 per unit.

On the low end that's a $2.5 million fix for Peterson's old building. On the high end, $3.8 million.

As of September, CSP said it expects to take about 20 buildings back in total of the 54 foreclosures filed. Back-of-the-napkin math: that would eat up 9 percent of the fund, on the low-end estimate, and 13.5 percent on the high.

Those are, of course, guess-heavy predictions. CSP did not share which buildings will likely go back, so the unit count is unknown, as are the levels of disrepair and associated costs.



Other Signature buildings with foreclosure filings are owned by notoriously negligent landlords that frequent the Public Advocate's Worst Landlord Watchlist for tens of thousands of uncured violations, which can be a proxy for physical disrepair.

Ved Parkash, alleged slumlord and tenant harasser, has eight complaints against him totaling $47 million. Moshe Piller, whom the city sued for violations in 2022, is on the foreclosure list. CSP sued for his default on an $8.4 million loan backed by two Hunts Point buildings.

Riggs said if the capital needs of the City Skyline building are "significant enough" it would tap the capital improvement fund for fixes. That would be among the first dips into the honey pot.

One source said as more buildings go back, their capital needs will likely surprise the FDIC, which may only be realizing now how investment-starved Signature's buildings are. The agency's press person did not respond to multiple requests for comment for this article.

Because of the way the agency designed the sale and accepted the lower bid, the pot of money is likely smaller than it would have been with a higher bidder, since it was funded at the same ratio — 95-to-5 percent — as the equity split, with the FDIC picking the long straw.

Wiggle room

The progress CSP has made so far is due to responsive borrowers who want to keep their buildings and get out of default or distress. "I thought a lot more people would say, 'Take the keys. I don't want anything to do with this,'" Riggs said.

Of the 56 percent of loans the venture has worked through, the overwhelming majority have been modified with a light touch, specifically a reduced interest rate for debt that reset in the past two years. Before the Federal Reserve's rate-hike mania, loans carried 3 percent interest. Today's rates can push 8 percent, what Riggs called a "disaster" for owners.

CSP cuts the difference at five and a quarter, for example, and owners bite.

One-tenth of those workouts demanded the bigger lift of an A/B split: effectively, dangled forgiveness on a portion of the principal. So, a $10 million loan becomes a $6 million "A" note and a $4 million "B." The "B" or "hope note" carries 0 percent interest for three years.

It gets wiped at the end of the term so long as the owner meets a few metrics: current on "A" note payments, low violation count, minimal charges to the city's emergency repair program.

CSP only just started rolling out A/B modifications in the past six months, Riggs said, signaling more to come. The hit to principal is doable because CSP paid 59 cents on the dollar. The $10 million example loan is that discount working in real time: 40 percent off for CSP translates to 40 percent forgiveness for the new buyer.

Whether owners can meet the terms to get their “B” notes forgiven does lean heavily on asset economics. Reduced principal payments can free up cash flow. But CSP is locking in those modifications amid the incredible shrinking rent-stabilized margin.

The Rent Guidelines Board’s most recent data, which trails real life by two years, showed expenses in 2024 had jumped 27 percent from 2020; rents had risen 11 percent in the same period.

One-tenth of the rent-stabilized stock had negative net operating income in 2024, per an April report, a denominator that includes new buildings developed with significant tax abatements. Those obscure the scope of the distress, the industry says.

The other half-ish

And then there is the remaining 44 percent of the loan book. CSP did not share what state those loans are in. But it did say it is anticipating REOs beyond the 20 it said were coming in the short term.

Those deals will be more vulnerable to rising expenses than the A/B splits that are already benefitting from reduced principal.

On the low end that’s a $2.5 million fix for Peterson’s old building. On the high end, $3.8 million.

Community Preservation Corporation has forecast net operating income for a sample of its own portfolio over the next four and ten years, using the RGB’s 2024 data as the starting point.

If revenue stays flat, which it will through at least 2028 because of the city’s rent freeze, that would mean the NOI of $4,508 per month on the average rent-stabilized apartment drops to $2,929 by 2028 and $1,804 by 2034 — assuming expense growth of 5 percent. Expenses do not include debt service.

In the Bronx, where rents are $500 lower than the city average and “stress has already arrived and is worsening quickly,” according to CPC’s April data brief, the NOI goes negative $1,313 by 2028.

By 2034, it’s $3,261 in the red.

That’s when you might want to shake the half-billion-dollar piggy bank.

If the money runs out

CSP's current position on the $560 million pot is it's sufficient, Riggs said. If it's not, it's unclear who plugs the hole.

CPC likely does not have the cash; Related Fund Management was the big bucks behind its bid. Since the sale, Related Companies has been unloading as much of its rent-stabilized as possible. It's sold over $200 million.

There may be a provision in the FDIC operating agreement for what to do if the balance goes to zero, but CSP did not provide a copy of that agreement.

The New York City Employees' Retirement System invested in CSP's stake a few months after the sale closed when it was able to pull together $60 million. It's possible it could pump in more.

A spokesperson for the comptroller's office called the money a "prudent investment that is continuing to perform well for NYCERS as loans continue to pay off at par and get refinanced by the FDIC."

But in the case of Related and the city comptroller, a second equity injection could be viewed as throwing good money after bad. Related Fund Management did not respond to a request for comment.

If CSP does not have the money to fix the buildings it takes back, tenants, at least temporarily, will be left in the lurch.

Beyond the fate of the buildings and the lives of the tenants, that would pose a reputational hit to the FDIC.

The agency forewent a highest bid of 82 cents on the dollar from a Brookfield-led team to prioritize the housing stability of low-income renters, a decision that likely meant less money for the fund.

And so if the FDIC leans on the Deposit Insurance Fund for more, it will mark the second time it has flouted its typical mandate of minimizing losses to prioritize the preservation of affordable housing.

Then, arguably, if buildings in foreclosure have to wait to be recapitalized, it suggests the FDIC has stumbled in that statutory obligation, too.