CENTER FOR NYC NEIGHBORHOODS

Testimony before the New York City Community Investment Advisory Board
Brooklyn Public Hearing
February 9, 2015

Good evening. My name is Caroline Nagy, and I am the Policy Manager at the Center for NYC Neighborhoods. I would like to thank the members of the Community Investment Advisory Board for holding tonight's important hearing.

About the Center for NYC Neighborhoods

At the Center for NYC Neighborhoods, our mission is to promote and protect affordable and sustainable homeownership in New York City. We believe that keeping homeownership affordable creates strong neighborhoods that allow for working and middle class New Yorkers to be a part of the economic opportunities that emerge as New York City continues to prosper. Through a network of community-based partner non-profits—what we refer to as our "Network Partners"—we provide homeowners with the essential support to prevent and overcome economic hardships of many kinds, and to make absolutely sure that they can afford to stay in their homes. Since 2008, our network of 36 community-based partners located throughout the five boroughs has assisted over 30,000 homeowners.

Implementing the Responsible Banking Act in NYC

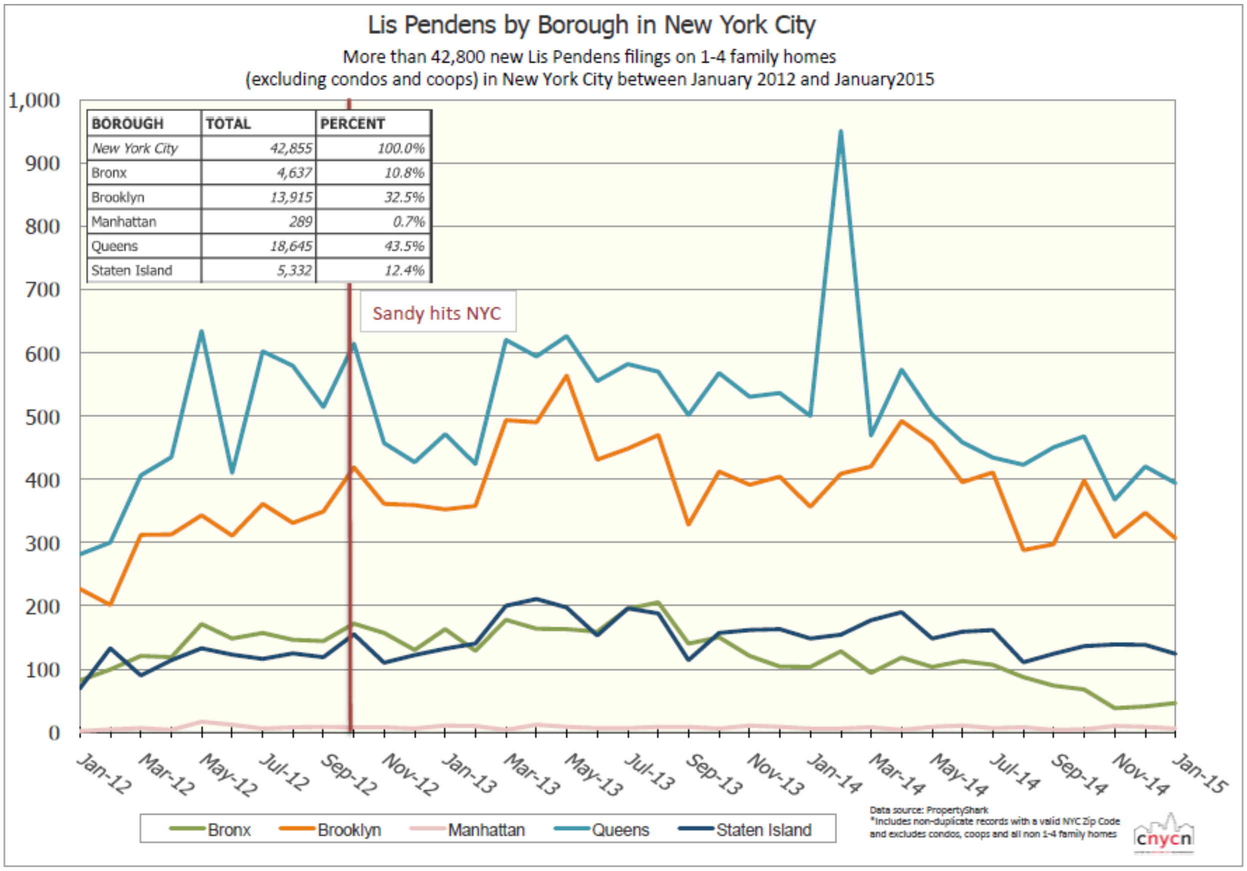
At the Center, we supported the passage of the Responsible Banking Act (RBA) and believe it provides an exciting opportunity to further our mission of promoting and protecting affordable and sustainable homeownership in New York City.

Challenges Confronting Affordable Homeownership in NYC

Today affordable homeownership in New York City is very much at risk on several fronts: the continued fallout of the foreclosure crisis; the inability of creditworthy lower- and middle-income (LMI) homeowners to obtain mortgages; and the difficulty these homeowners face in competing in a market increasingly dominated by all-cash investors. The RBA will provide important tools to help meet the challenges of underserved communities.
When evaluating financial institutions, we hope that the needs assessment and resulting report created by the Community Investment Advisory Board will reflect and address the following community financial needs:

1. **Foreclosures Continue to Afflict Homeowners and their Neighborhoods**

The foreclosure crisis is far from over: foreclosure continues to be a daily source of stress, confusion, and anger for many New Yorkers. Today the crisis has resulted in thousands of foreclosures in New York City and even more homeowners struggling to make monthly mortgage payments, with communities of color significantly disproportionately impacted. While foreclosures have declined in many parts of the country, in New York foreclosure starts ("lis pendens") remain stubbornly persistent, with filings increasing 30% in 2013. Worse, there remains a tremendous backlog of owners stuck in the foreclosure process and thousands more families continue to fall behind on their mortgage payments each month. Many of these families will be able to stay in their homes if they are able to receive a mortgage modification, particularly one that includes principal reduction. Unfortunately, they often face difficulty obtaining modifications from their mortgage servicer.



2. Lower- and Middle-Income Households Have Difficulty Obtaining Mortgages

The mortgage market has become too tight to accommodate many creditworthy New York City households, and as a result, LMI families are having a hard time getting a mortgage even when they have the downpayment and the income to afford a home. Today, the average credit score for a mortgage guaranteed by Fannie Mae or Freddie Mac is 744, a very high score that is well above the median for New York State.

3. Lower- and Middle-Income New Yorkers Are Getting Shut Out of the Market

Responding to New York City's affordable housing crisis is as much about preserving lower- and middle-income homeownership opportunities as it is about building new, subsidized affordable rental units. Unfortunately, the rate of homeownership in the City's LMI Census Tracts has decreased, from 27.9% in 2006 to 19.4% in 2012. Two related trends are threatening the ability of LMI families to compete and buy homes in neighborhoods that have historically been affordable. First, in communities like East New York, predatory real estate investors are targeting homeowners facing foreclosure, offering cash to buy them out and acquire their homes on the cheap, only to flip the houses or rent them for a profit. Second, the emerging securitization market backing the acquisition of foreclosed homes and their conversion into rental properties risks pushing families looking to purchase homes in New York City out of the housing market, in addition to creating another destabilizing housing bubble. We know from our work at the Center that homeownership is an essential component of responsible property maintenance and neighborhood stabilization. By pushing out homeowners, we are losing more middle-income families from neighborhoods still reeling from the 2008 financial crisis.

4. Vacant and Abandoned Properties Continue to Blight NYC Neighborhoods

Despite the intense demand for housing in New York City, vacant and abandoned properties continue to destabilize and blight many of our communities. In addition to reducing the supply of much-needed housing, vacant and abandoned properties diminish quality of life and economic opportunities in affected neighborhoods. They present health and public safety hazards for community members and lower property values for nearby homeowners. Foreclosure is a major contributor to New York City's vacant and abandoned residential buildings: nationally, about 20% of properties in the foreclosure process have been vacated by their owners, and there are an estimated 10,000 vacated homes in foreclosure in the New York City metro area alone.

Recommendations

Responding to these challenges requires a concerted, dedicated effort on the part of government, community institutions, as well as our financial institutions. The reporting and accountability measures introduced by the Responsible Banking Act will support this effort. We respectfully submit the following recommendations to the Community Investment Advisory Board:

- **Make Data Public:** The Community Investment Advisory Board will have access to a wealth of information, including community district-level data on financial institution activity regarding loss mitigation and neighborhood stabilization activity. This includes the number of foreclosure filings, modifications accepted, principal reductions, as well as the location of REO property and plans for their disposition. Ideally this information will be available to the public and will allow organizations like the Center and its Network Partners to target efforts and hold banks accountable.
- **Promote Foreclosure Prevention:** Evaluate financial institutions based on their ability to prevent foreclosures whenever possible. Specifically, this includes their compliance with Consumer Financial Protection Bureau servicing requirements, reducing principal on loans, and granting more trial and permanent mortgage modifications.
- **Promote Affordable Mortgages:** Evaluate financial institutions based on their ability to create and promote financial products that are accessible to LMI homebuyers. Ideal product features include low down-payment requirements, reasonable credit assessments that allow for alternative forms of credit, downpayment assistance, and connections to homebuyer counseling. Additionally, these products should be marketed to targeted communities and organizations that serve them.
- **Promote Responsible Maintenance of Foreclosed and Abandoned Properties:** When properties in foreclosure are abandoned and/or the property becomes real-estate-owned, it is essential that financial institutions ensure that the property is maintained and kept in good condition. Financial institutions should be evaluated under the Responsible Baking Act accordingly.
- **Promote Affordable Homeownership:** REO properties should remain affordable to lower- and middle-income homebuyers. Financial institutions can achieve this goal by

instituting “first look” policies where LMI homeowners and nonprofit organizations using public funds. They can also engage the Department of Housing Preservation and Development or community-based nonprofit organizations when seeking to dispose of such properties.

Thank you for the opportunity to testify. We at the Center for New York City Neighborhoods look forward to working with the Community Investment Advisory Board as it works to implement the RBA.