

CENTER FOR NYC NEIGHBORHOODS

**Testimony before the New York City Council Committees on Economic Development,
Community Development, and Civil Service and Labor: the Economic Impact of the
Foreclosure Crisis
April 14, 2015**

Good afternoon. My name is Christie Peale, and I am the Executive Director of the Center for NYC Neighborhoods. I would like to thank Chairs Garodnick, Arroyo, and Miller, as well as the members of the Committees on Economic Development, Community Development, and Civil Service and Labor for holding today's important hearing.

About the Center for NYC Neighborhoods

The Center for NYC Neighborhoods is committed to promoting and protecting affordable homeownership in New York. Established by public and private partners, the Center meets the diverse needs of homeowners across the five boroughs. The Center and its network of over 30 community-based partners offer high-quality housing counseling and legal services, free of charge, to prospective homeowners, current homeowners, and homeowners in search of new housing. Since 2008, thanks to the early commitment and ongoing support from the City Council and the Department of Housing Preservation and Development (HPD), our network has assisted over 35,000 homeowners at risk of foreclosure. During this time, the Center has provided approximately \$30 million in direct grants to our community-based partners, and we have been able to leverage this funding to oversee another \$21 million in indirect funding support.

Through the Mortgage Assistance Program--which we administered in New York City on behalf of HPD, and recently expanded statewide thanks to the New York State Office of the Attorney General--we have deployed approximately \$7 million to keep over 300 families in their homes with critical loans to fill gaps and make modifications happen.

As you know, a significant portion of our direct grants to community partners is funded by the Executive Budget and the City Council, and we remain ever grateful to the Mayor and the Council for your vision and support. The City's support allows us to leverage foundation and corporate funding in order to support community-based partners across New York City, working in neighborhoods hardest hit by the foreclosure crisis and Hurricane Sandy.

The Foreclosure Crisis in NYC

Though our national economy has come back, albeit slowly and incompletely, from the depths of the 2008 recession, the foreclosure crisis that precipitated the recession continues to be a daily source of stress, confusion, and financial hardship for hundreds of thousands of New Yorkers. Today the crisis has resulted in tens of thousands of foreclosures in New York City and even more homeowners struggling to make monthly mortgage payments. The negative impacts of the foreclosure crisis are felt citywide, but are seen particularly in communities of color, which were disproportionately targeted and harmed by the predatory lending that caused the financial crisis.¹ Nationally, half of the collective wealth of African-American families was lost during the Great Recession both due to the dominant role of home equity in their total net worth and the prevalence of predatory high-risk loans in communities of color. Likewise, the Latino community lost an astounding 67% of its total wealth during the housing collapse.²

While foreclosures have declined in many parts of the country, foreclosure starts (“lis pendens”) remain stubbornly persistent in New York, with approximately 46,000 new foreclosure cases filed statewide in 2014. New York State has the second-highest foreclosure rate in the country, with 4% of mortgaged homes in foreclosure,³ with some neighborhoods in Queens, the Bronx, and Brooklyn facing foreclosure rates of over 11%.⁴ 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, putting them at risk of foreclosure. And, finally, too many homeowners are struggling with negative equity: almost 14% of homeowners with a mortgage in New York State are “underwater,” meaning that they owe more on their home than the estimated value of the home.

Many families are at risk of foreclosure because they or their tenants have experienced unemployment or reduced business due to the Great Recession that resulted from the foreclosure crisis. Others are at risk because they remain saddled with the unaffordable mortgages that caused the crisis in the first place. A large proportion of these homeowners

¹ Center for Responsible Lending, *Lost Ground*, 2011: Disparities in Mortgage Lending and Foreclosures, at 3. Available at <http://www.responsiblelending.org/mortgage-lending/research-analysis/LostGround-2011.pdf>. See also National Community Reinvestment Coalition, *The Broken Credit System: Discrimination and Unequal Access to Affordable Loans by Race and Age*, 2003. Available at: http://www.omm.com/omm_distribution/newsletters/client_alert_financial_services/pdf/ncrcdiscrimstudy.pdf; Center for Responsible Lending, *Unfair Lending: The Effect of Race and Ethnicity on the Price of Subprime Mortgages*, 2006. Available at: <http://www.responsiblelending.org/mortgagelending/research-analysis/unfair-lending-the-effect-of-race-and-ethnicity-on-the-price-of-subprime-mortgages.html>.

² Institute on Assets and Social Policy, Brandeis University, *The Roots of the Widening Racial Wealth Gap: Explaining the Black-White Economic Divide*, 2013, at 4. Available at <http://iasp.brandeis.edu/pdfs/Author/shapiro-thomas-m/racialwealthgapbrief.pdf>.

³ Core Logic, *National Foreclosure Report*, December 2014, at 6. Available at: <http://www.corelogic.com/research/foreclosure-report/national-foreclosure-report-december-2014.pdf>

⁴ Federal Reserve Bank of New York, *Regional Mortgage Conditions*, <http://www.ny.frb.org/regionalmortgageconditions/>.

should be able to stay in their homes with a mortgage modification, particularly if it's a modification that includes principal reduction.

Unfortunately, homeowners often face difficulty obtaining modifications from their mortgage servicers. In particular, principal reduction is elusive for most homeowners, and remains forbidden for homeowners with mortgages backed by Fannie Mae or Freddie Mac due to federal policy restrictions. The homeowners we work with frequently report having difficulty communicating with their servicer, receiving conflicting information from customer service representatives, and having to resubmit documentation unnecessarily. Whether due to deliberate malfeasance on the part of mortgage servicers or their inability to adequately serve the high volume of homeowners seeking help, the end result is an increasingly confused, frustrated, and desperate population of homeowners.

The Impact of the Foreclosure Crisis:

Widespread Scams

No one should have to navigate the complexity of the loan modification and foreclosure processes on their own. Unfortunately, this is the reality for far too many New York City homeowners, who often do not know where to turn to obtain trustworthy help with their mortgages. A cottage industry of foreclosure rescue scammers has arisen to take advantage of the desperation and confusion caused by the foreclosure crisis, putting homeowners at greater risk of losing their homes.⁵ Homeowners caught in a scam generally lose several thousand dollars in cash payments to a scammer, and the resulting delays in legitimately addressing their default worsen their odds of obtaining a positive outcome. Even worse, scammers are developing increasingly complicated deed theft scams, where a vulnerable homeowner is tricked into signing over title to their home under false pretenses.

Homeownership, and Particularly LMI Homeownership, is on the Decline

The rate of homeownership in the City's Low- and Moderate-Income (LMI) census tracts has decreased from 28 percent in 2006 to 19 percent in 2012.⁶ This is due to a number of factors, many resulting from the foreclosure crisis. It will come as no surprise to the Council that the homes and neighborhoods that middle- and working-class homeowners leave (whether by choice or not), are generally becoming home to increasingly wealthier new owners. Today, in a counter-reaction to the lending practices that caused the mortgage crisis, credit has become too tight to accommodate many perfectly creditworthy New York households. As a result, LMI families are having a hard time getting a mortgage even when they have 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.

⁵ Visit www.cnycn.org/scams to learn more about foreclosure rescue scams in New York State.

⁶ NYU Furman Center, State of New York City's Housing and Neighborhoods 2013, at 27. Available at: http://furmancenter.org/files/sotc/SOC2013_HighRes.pdf

Even if prospective homebuyers are able to obtain a mortgage, two related trends are threatening their ability to purchase homes in neighborhoods that have historically been affordable. First, in communities like Jamaica, 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 potentially destabilizing housing bubble.

Unfortunately this process has been aided by the federal government's practice of auctioning large sales of distressed notes to private investors. Last month, Freddie Mac conducted an auction of 5,398 non-performing loans through three separate loan pools, including a pool consisting solely of 490 New York properties. Today, the GSEs ("Government Sponsored Enterprises," namely Fannie Mae and Freddie Mac) and HUD are increasing their bulk sales of distressed New York mortgages to large-scale real estate investors, who are motivated by profit maximization, not homeowner retention or the promotion of affordable housing. While this continued large-scale transfer of assets presents a major policy challenge in its current form, we believe that these note sales could represent a tremendous opportunity to transfer stewardship of many of these mortgages to mission-driven non-profits that are accountable to the community.

Vacant and Abandoned Properties

Foreclosure can sometimes lead to vacant and abandoned residential buildings. Despite the intense demand for housing in New York City, we hear from our partners that vacant and abandoned properties continue to destabilize and blight many of the communities where our network works. 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. One area with room for improvement in this challenge is simply one of visibility. Because of the complexity of the foreclosure process and the difficulty in collecting real-time property-level data, we still have an incomplete picture of the scope of the vacant/abandoned challenge in New York City.

Recommendations

Responding to these challenges requires a concerted, dedicated effort on the part of government, community institutions, as well as financial institutions. We respectfully submit the following recommendations:

1. Support Homeowners at Risk of Foreclosure

Foreclosure prevention through the proven models of housing counseling and legal services provides essential assistance to homeowners working hard to keep their homes. Our network of housing counselors and attorneys obtains results: an analysis conducted using the Center's data found that homeowners who received foreclosure prevention counseling from housing

counselors in the Center's Network were 30% more likely to receive a modification to their mortgage and stay in their homes than homeowners who did not receive counseling. On average, the mortgage modifications our network achieves result in monthly savings of approximately \$700 per household, which means that, all told, the modifications our network has been able to achieve save New Yorkers over \$39 million per year. The City has been at the forefront nationally in terms of deploying resources for foreclosure prevention services. We commend and thank the New York City Council and the de Blasio administration for the continued, support of these vital services.

2. Support Innovative Approaches to the Foreclosure Crisis

While New York has been a leader in funding foreclosure prevention services, there are many additional innovative models that have worked in other parts of the country that show great promise and should be considered in New York as we work together to promote affordable homeownership while resolving the large inventory of distressed, underwater mortgages, and foreclosed or vacant properties. With the potential for increased resources from any additional future bank settlements as well, as the de Blasio administration's and the City Council's dedication to affordable housing, we have the opportunity to implement promising new programs such as a new fund that could approach the foreclosure crisis from a new angle.

Acquisition Fund for Distressed and Abandoned Properties

A fund for the bulk acquisition and disposition of distressed or underwater mortgage notes and foreclosed or vacant properties is long overdue in New York, and the Center, along with many of our community partners, continues to advocate for its implementation. Building on a proposal we submitted to the City in anticipation of the Mayor's *Housing New York Plan*, we have partnered with several dozen organizations statewide to advance the creation of a New York State Community Restoration Fund. The Community Restoration Fund would acquire distressed mortgages at HUD and GSE bulk sales and provide principal reductions and other services to stabilize delinquent homeowners, or, where foreclosure is unavoidable, ensure that the property remains affordable for LMI homebuyers. Additionally, the fund would acquire vacant and abandoned properties through short sales, auctions, and donations, and ensure their affordability to LMI homebuyers or renters going forward.

Whether enacted at the state or city level, the Community Restoration Fund would provide a valuable and needed tool to confront the foreclosure crisis and preserve vital affordable housing from falling into the hands of speculators. While funding for the Community Restoration Fund was unfortunately not included in this year's state budget, we have identified a number of promising sources for funding, including future bank settlements. We look forward to working with State officials, the de Blasio Administration, and City Council to continue to develop this fund.

Community Land Trusts

Community land trusts present another promising solution to the challenge of rising home purchase costs in New York City. Used throughout the country to keep homes affordable in

perpetuity for long-term residents, community land trusts work by acquiring and managing land through a locally-controlled nonprofit organization. Land is thus removed permanently from the open market and the community land trust is able to set policies that help to preserve affordability. Community land trusts are an exciting next step in preserving affordability in countless neighborhoods across New York City, and we look forward to working with State officials, the de Blasio Administration, and City Council to explore how we can make this a reality.

3. Support Innovative Programs for Newly Stabilized or Transitioning Homeowners

HomeReserve

We encourage the City to assist homeowners after they have succeeded in obtaining mortgage modifications. Our proposed HomeReserve program consists of a savings match program, coupled with financial counseling and budget planning. HomeReserve would match eligible homeowners' savings after they receive a mortgage modification in order to prevent re-defaults when homeowners lack sufficient savings and are faced with a new hardship. Such a program is appropriate precisely because of the City's considerable investment in assistance for homeowners in distress: once a homeowner's financial situation has been stabilized, investing in a continuation of that success ensures that the homeowner succeeds over the long-term. We look forward to working with City Council and the de Blasio administration to move this program forward.

Housing Mobility Program

Additionally, not all clients are able to reach homeownership solutions through our typical foreclosure prevention programs. There are a number of clients who have exhausted all options and are not able to keep their homes. To serve these incredibly vulnerable homeowners, many of whom are seniors or disabled and on very low, fixed incomes, the Center created our Housing Mobility Program. This Program assists homeowners who are unable to save their homes by guiding them through the transition into alternative housing. To date, the program has served 210 homeowners. Through this work, almost \$34 million in total mortgage debt has been discharged on behalf of homeowners.

4. Protect Vulnerable Homeowners from City Lien Foreclosure

The sale of City tax liens for one-to-four family homes in New York City causes financial hardships for thousands of low-income or otherwise vulnerable families each year, and puts them at greater risk of foreclosure. Over the past two years, the Center has done extensive work to prevent property tax and water/sewer liens on 1-4 family homes from being sold in the annual Lien Sale. To get the word out about the sale, we launched a lien sale outreach campaign and created our Tax Lien Tracker to identify the number of 1-4 family properties on the lien sale list and to help Council Members and neighborhood advocates understand the risks the lien sale presents on a neighborhood-level.

5. Support Strong Implementation of the Responsible Banking Act

We commend City Council for passing 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. In particular we urge the Council to ensure that information obtained through the implementation of the RBA is made public so organizations like the Center and its Network Partners can target efforts and hold banks accountable. This includes making public community district-level data on financial institution activity regarding loss mitigation and neighborhood stabilization activity, such as modifications accepted, principal reductions, the location of REO property and plans for their disposition. We believe the RBA will provide an excellent tool to hold banks accountable by evaluating their track record when it comes to foreclosure prevention, promoting affordable homeownership, and the responsible maintenance and disposition of foreclosed and abandoned properties. We look forward to working with City Council and the de Blasio administration to ensure its successful implementation.

6. Combat predatory practices targeted at homeowners and homebuyers

Combating predatory practices targeted at homeowners and homebuyers requires a concerted approach from City and State government as well as law enforcement agencies. We have partnered with the New York Attorney General's Office to create AGScamHelp a web-based resource dedicated to helping New Yorkers at risk of foreclosure locate free, trusted help from community-based nonprofits as part of the Attorney General's Homeownership Protection Program, of which the Center is the New York City anchor partner. We are also stepping up direct outreach to homeowners and their communities through mailings and community outreach. We ask City Council members to partner with us in getting the word out to constituents that high-quality foreclosure prevention services are available to homeowners free of charge, and that homeowners can be connected to these services by calling our Homeowner Hotline, which can be reached through 311 or 855-HOME-456. Additionally, there's much more work needed on the enforcement end, and we look forward to working with Council to put pressure on law enforcement agencies to vigorously pursue and prosecute these insidious scammers.

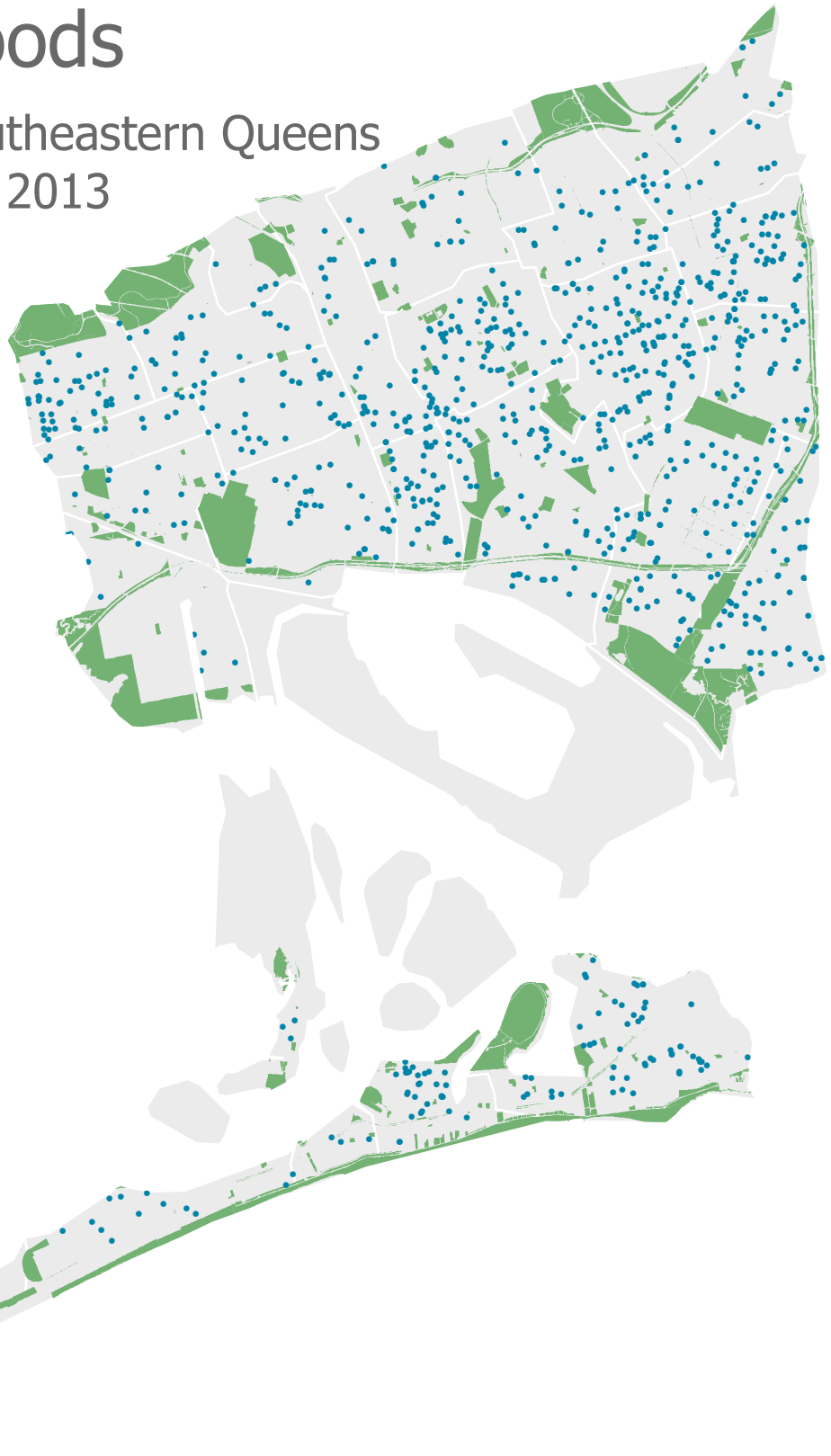
Thank you for the opportunity to testify. We look forward to continue working with the City Council and the de Blasio administration, to promote and protect affordable and sustainable homeownership.

ATTACHED: Appendix - Maps and Charts: The State of Foreclosure in NYC

Center for New York City Neighborhoods

Households in Southeastern Queens Served since April 2013

More than 2,882 households in southeastern Queens have received housing or legal counseling from CNYCN network partners between April 2013 and March 2015.



Data Sources: CNYCN Intake data; U.S. Census Zip Code Tabulation Areas
Note: Locations have been randomized to obscure actual addresses

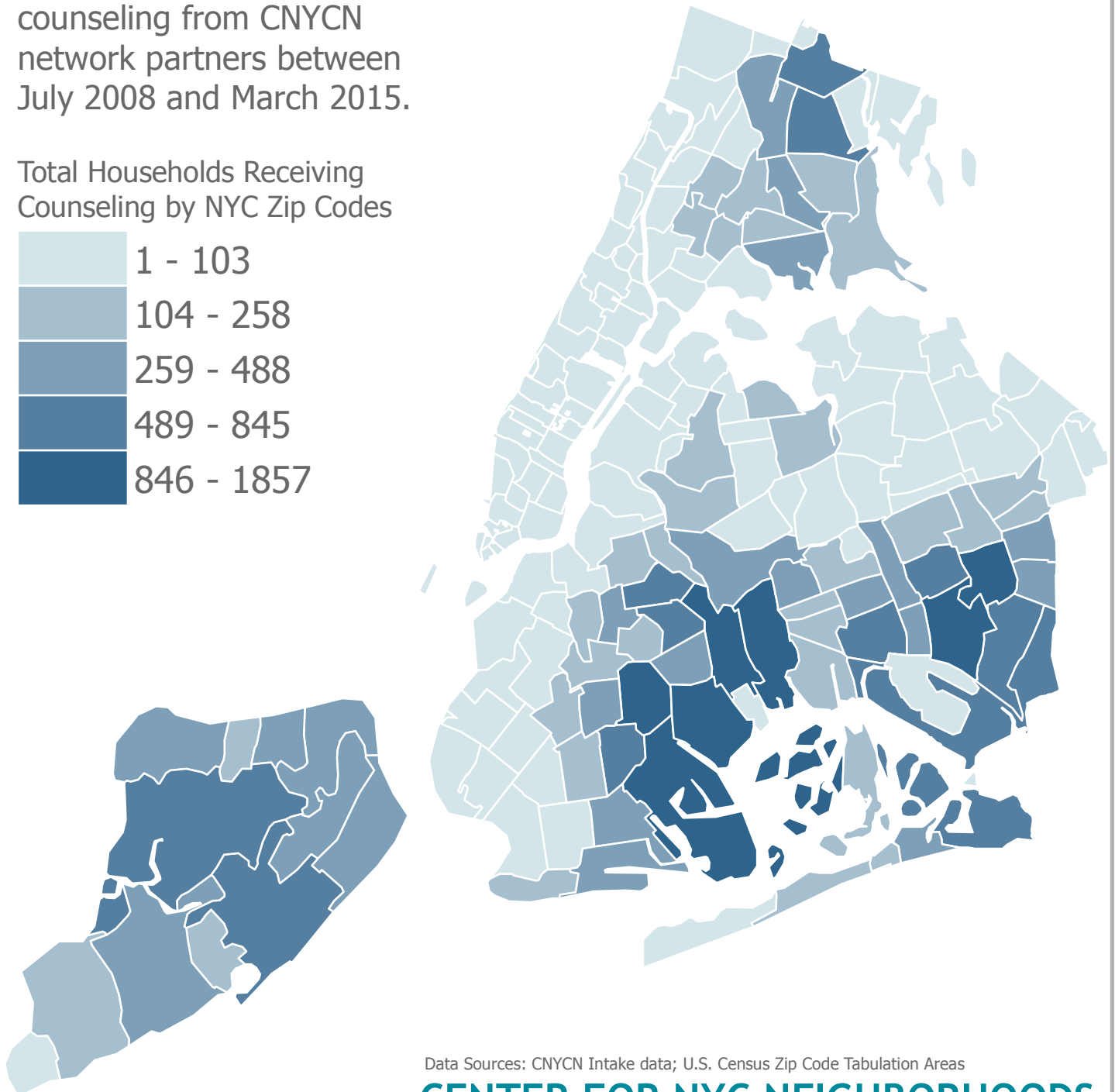
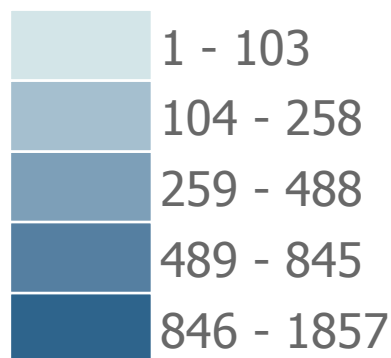
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NYC Households Served since 2008

More than 37,080 households have received housing or legal counseling from CNYCN network partners between July 2008 and March 2015.

Total Households Receiving Counseling by NYC Zip Codes

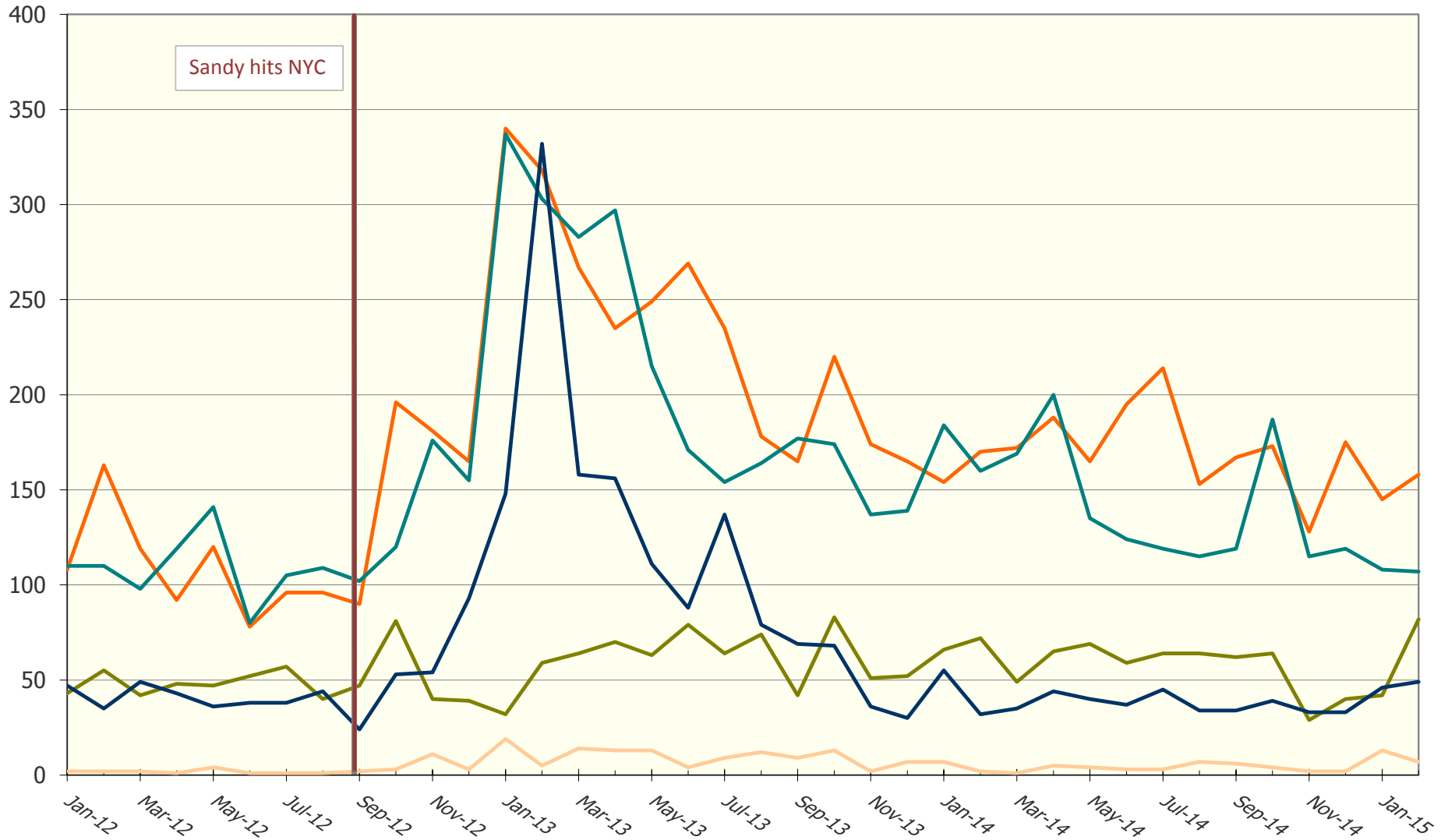


Data Sources: CNYCN Intake data; U.S. Census Zip Code Tabulation Areas

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CNYCN Intakes

More than 21,000* CNYCN Intakes between January, 2012 and February, 2015



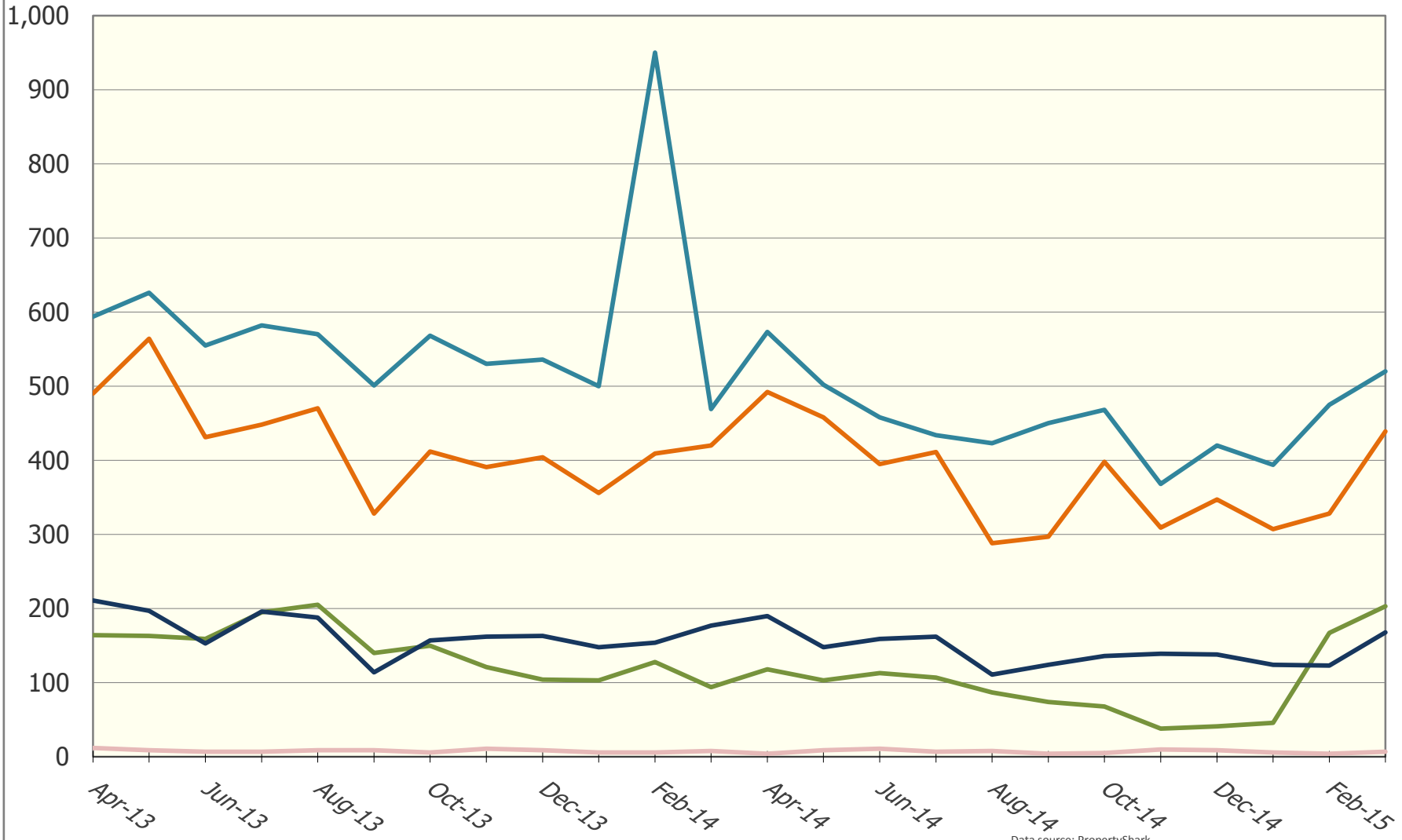
Sandy hits NYC

* This number includes homeowners residing both within and outside of NYC



Lis Pendens by Borough in New York City

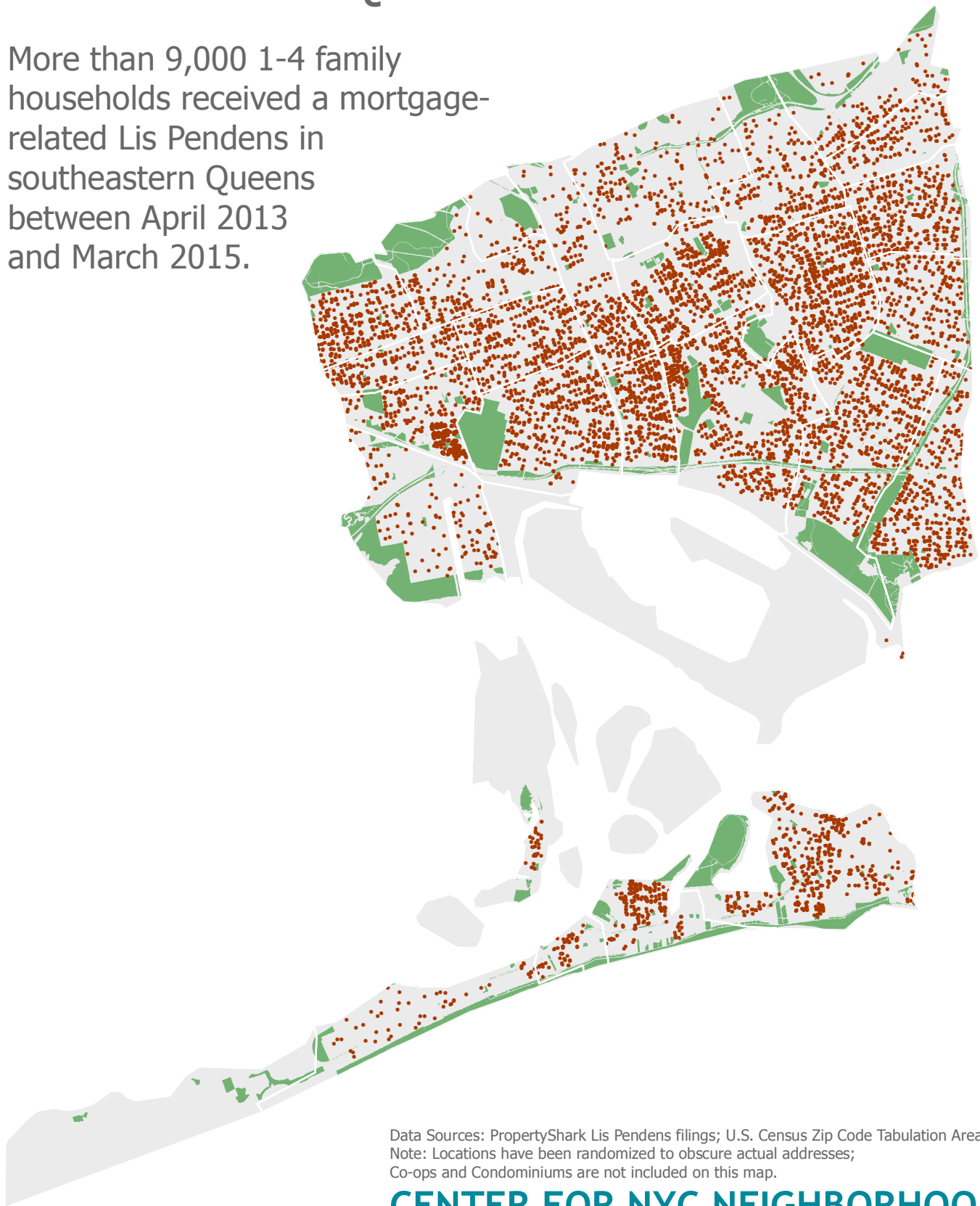
More than 28,900 new Lis Pendens filings on 1-4 family homes
(excluding condos and coops) in New York City between April 2015 and March 2015



Data source: PropertyShark
 *Includes non-duplicate records with a valid NYC Zip Code and excludes condos, coops and all non 1-4 family homes

Foreclosure Filings in Southeastern Queens

More than 9,000 1-4 family households received a mortgage-related Lis Pendens in southeastern Queens between April 2013 and March 2015.

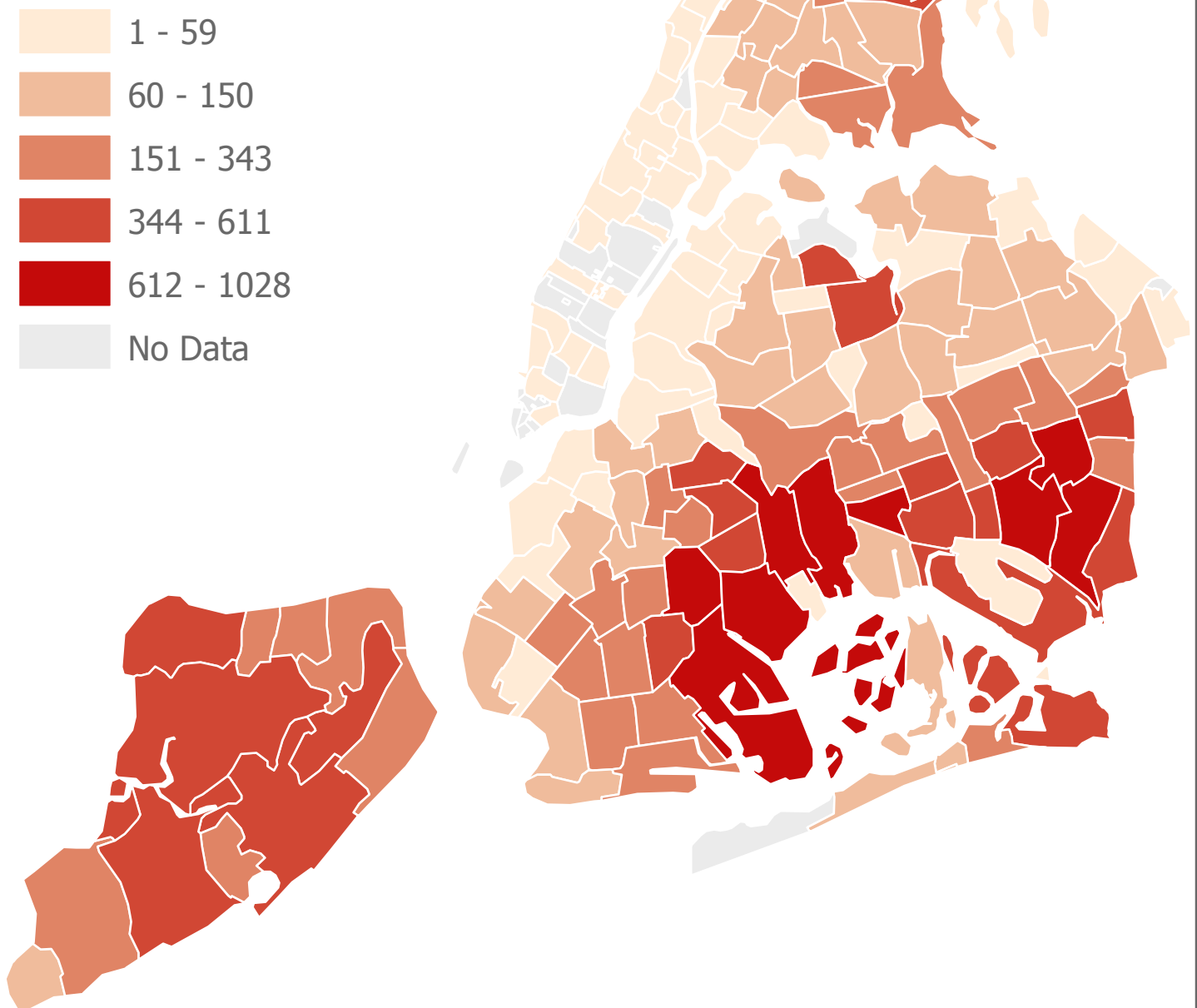


Data Sources: PropertyShark Lis Pendens filings; U.S. Census Zip Code Tabulation Areas.
Note: Locations have been randomized to obscure actual addresses;
Co-ops and Condominiums are not included on this map.

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Foreclosure Filings in New York City by Zip Code

More than 28,866 1-4 family households received a mortgage-related Lis Pendens in New York City between April 2013 and March 2015.



Data Sources: PropertyShark Lis Pendens filings; U.S. Census Zip Code Tabulation Areas
Note: Co-ops and Condominiums are not included on this map.

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