TESTIMONY OF NEW ECONOMY PROJECT

Presented by Sarah Ludwig, Founder & Co-Director

at the

JOINT HEARING TO EXAMINE THE CRISIS FACING HOMEOWNERS IN BROOKLYN

Friday, March 15, 2019

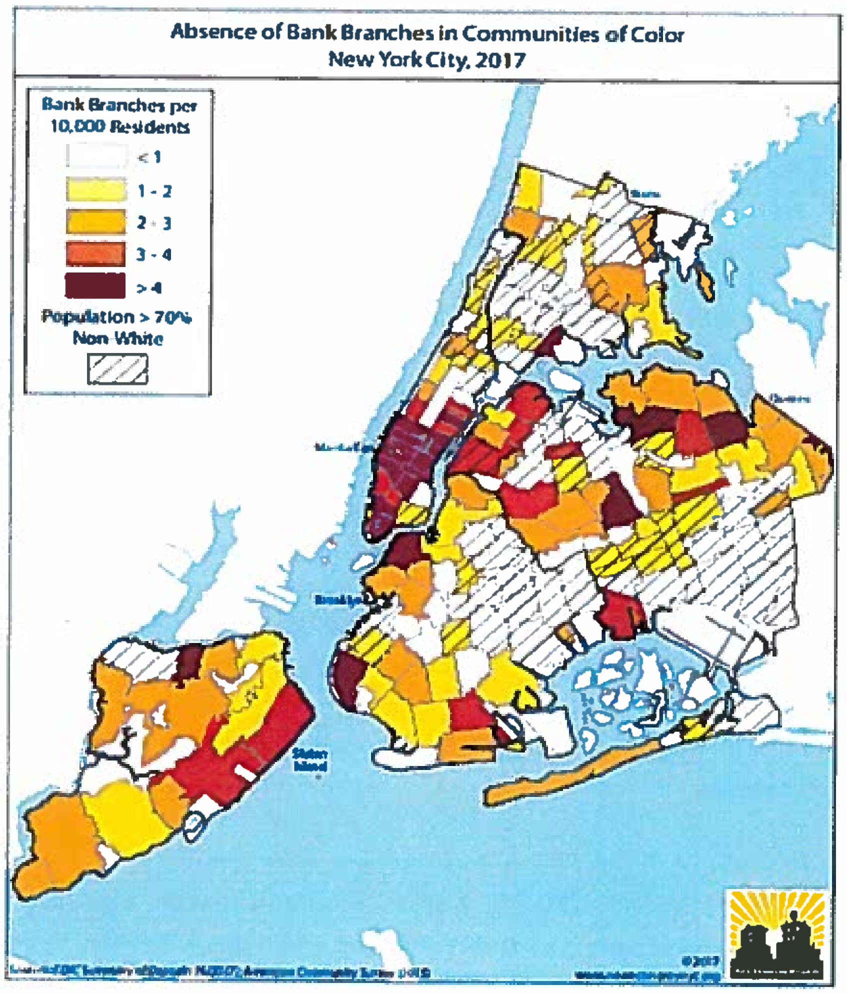
Brooklyn Borough Hall

Thank you for the invitation to testify at this important joint hearing, examining the crisis homeowners of color face in Brooklyn. My testimony today consists mainly of maps and other data analysis that our organization, New Economy Project, has produced, demonstrating the persistence of bank redlining and ongoing concentration of foreclosures in neighborhoods of color in Brooklyn and city-wide. I will also make several concrete policy recommendations based on a platform called the NYS Community Equity Agenda, which 25 groups have been advancing to promote community wealth building, hold banks accountable, and end predatory lending.

New Economy Project's mission is to work with community groups to build a just economy, based on cooperation, equity, racial justice, and ecological sustainability. Since our organization's founding in 1995, we have worked closely with a wide array of community-based organizations to challenge systemic discrimination by Wall Street banks and other financial services providers that harm New Yorkers and perpetuate poverty, inequality, and segregation. We also work with groups to build alternative, community-controlled initiatives, including community land trusts, mutual housing, worker cooperatives, community-based financial cooperatives, and more.

I just want to add that our organization, formerly known as Neighborhood Economic Development Advocacy Project (NEDAP), worked for many years to fight against rampant foreclosures that were devastating so many families and neighborhoods in Brooklyn, for more than a decade, starting in the mid-1990s with the refinancing scams that targeted older black women who had lived in their homes for decades, as property values began to soar in fast-gentrifying neighborhoods of color. Early on, Senator Velmanette Montgomery held a public hearing to hear directly from community residents about this emerging crisis. I will never forget how one homeowner after another talked about one company, Delta Funding, which at the time had a hold on refinancing mortgages in Central Brooklyn, in particular, making unaffordable refinancing loans to steal equity from people's homes. The forum provided a moving and urgent platform for people to speak out, ultimately leading to investigations and prosecution by the NYS Attorney General, and three federal agencies, including the U.S. Department of Justice. We continue to value Senator Montgomery's outspokenness, early on, about the pernicious lending that was going on in her community and beyond – at a time when we were all just beginning to understand the many ways that Wall Street was implicated in and effectively fueled predatory lending.

To the maps: The first map shows the location of bank branches in NYC. The map controls for neighborhood population, showing the number of bank branches for every 10,000 people. The diagonal lines, or cross-hatching, are neighborhoods with populations that are more than 70% non-white, which includes black, Latino and Asian New Yorkers.



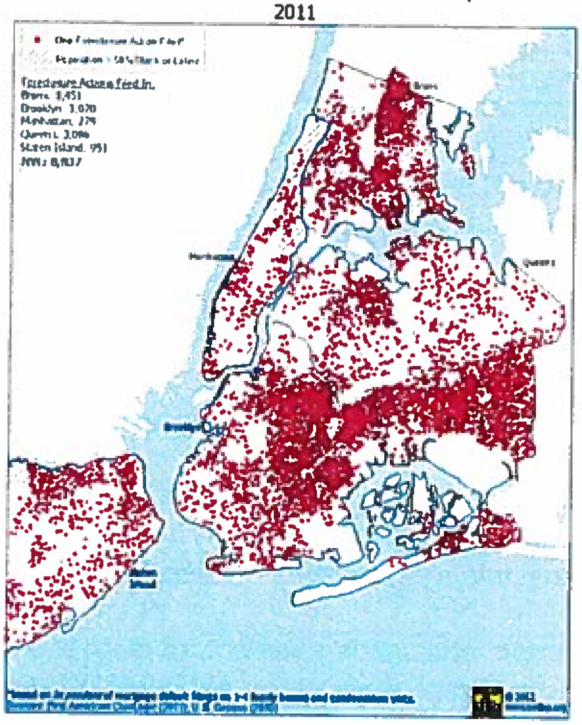
This map is striking in its illustration of how segregated our city is, as well as in these respects:

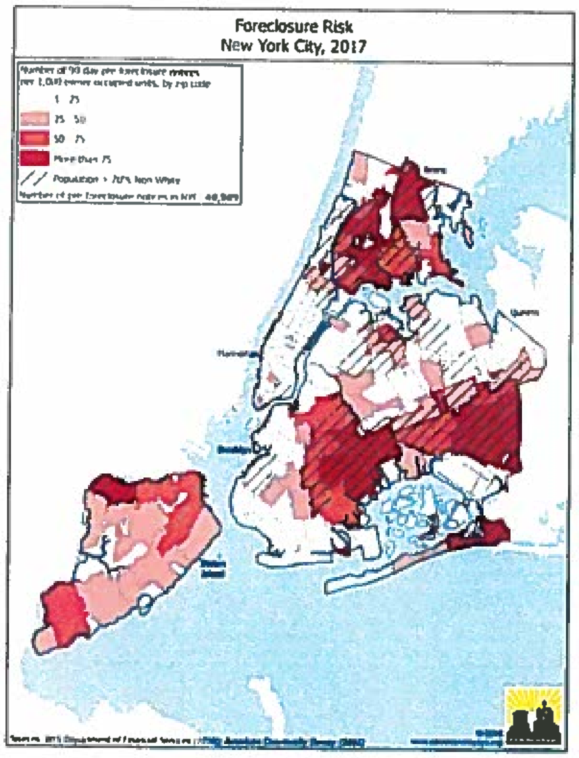
(1) It shows a glaring absence of bank branches in NYC neighborhoods of color -- at all income levels – including in a huge swath of Brooklyn, where bank branches are few and far between. (2) It is a picture that has not meaningfully improved since we began doing our work almost 23 year ago -- notwithstanding laws like the Community Reinvestment Act, which requires banks to serve all communities equitably, including low and moderate income neighborhoods, within the bounds of safe and sound banking.

Clearly people need to deal with money every day, and fringe financial services outlets, namely check cashers and pawnshops, proliferate in huge parts of the city that banks fail to serve adequately, or at all. We would be happy to share with you maps we have made, showing the distribution of bank branches, check cashers, and pawnshops, at the neighborhood level.

The next two maps show the overwhelming concentration of foreclosure actions in NYC communities of color, particularly the many neighborhoods that make up Central Brooklyn and Southeast Queens, as well as the northeast Bronx and the north shore of Staten Island. We made the first map, which shows foreclosure actions filed on 1-to-4-family homes, a few years after the financial meltdown, and the next one, which shows foreclosure risk (as indicated by New York's mandated 90-day pre-foreclosure notices), is hot off the press.

Home Foreclosure Actions - New York City
2011





We think the similarities between the two maps speak volumes, and underscore the ongoing plague of foreclosures for people in NYC neighborhoods of color -- a crisis that began in our city more than 20 years ago.

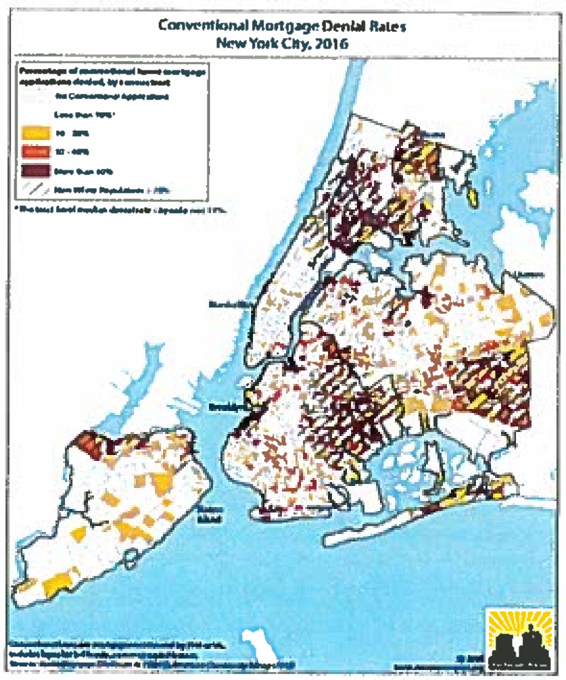
We have also included with our testimony today a report we just issued on foreclosure risk in New York State. Here are several key findings:

- In New York City's communities of color, the foreclosure crisis is far from over. Nine of the ten zip codes with the highest number of pre-foreclosure notices are neighborhoods of color.

Rank	Zip Code	Neighborhood	# of Filings	% Non-White Population
1	11236	Canarsie, Brooklyn	1,423	95.8%
2	11234	Flatlands/Marine Park, Brooklyn	1,250	61.4%
3	11706	Bay Shore, Long Island	1,187	64.9%
4	11434	Rochdale, Queens	1,071	98.6%
5	11717	Brentwood, Long Island	1,053	82.0%
6	10940	Middletown, Hudson Valley	1,010	53.8%
7	11413	Springfield Gardens, Queens	980	98.9%
8	10314	Bulls Head/New Springville, Staten Island	939	34.6%
9	11412	St. Albans, Queens	929	99.2%
10	11550	South Hempstead, Long Island	904	93.0%

- Nearly two-thirds (65.4%) of all notices sent to residents of NYC neighborhoods of color pertained to loans made between 2002 and 2007. As New Economy Project and others have long documented, NYC neighborhoods of color were inundated with predatory subprime lending for more than a decade leading up to the financial meltdown, and Brooklyn communities continue to reel from this targeted devastation.

The final map shows denial rates on applications for conventional home purchase loans in NYC.



New Economy Project's 2018 research shows major mortgage lending disparities based on the racial and ethnic composition of neighborhoods:

- Banks and other lenders were much more likely to deny mortgage applications for homes located in New York City communities of color. Three out of four neighborhoods where lenders denied more than half of applications received were communities of color.

- In fact, banks and other mortgage lenders were significantly more likely to deny loan applications as the percentage of black or Latino residents in New York City neighborhoods increased – whether people applied for a mortgage to buy a home or to refinance an existing mortgage.

Similarly, we found glaring disparities based on the race and ethnicity of mortgage applicants, both for home purchase and refinancing loans.

Community Equity Agenda

As these maps and data chart make abundantly clear, mainstream banks are not adequately meeting the financial services needs of New York's low-income and immigrant communities and communities of color. That's why in fall 2017, a broad cross-section of groups from across the state came together to create the NYS Community Equity Agenda -- an affirmative policy platform groups to advance racial and economic justice. It includes practical steps New York can immediately take to ensure equitable access to sound and affordable financial services, and self-determination for New Yorkers and New York communities. By adopting this platform, New York will expand access to fair and affordable financial services, advance cooperative ownership, and ensure strong local economies throughout the state.

First, New York should adopt policies that build community wealth. This year, the Legislature has an enormous opportunity to strengthen Community Development Financial Institutions (CDFIs). CDFIs have an outstanding track record of providing New Yorkers in communities not served by mainstream banks with affordable loans, savings accounts, and financial services, as well as financial counseling, to support homeownership and small business development. In many neighborhoods, CDFIs were created to fill the glaring void left by banks.

In 2007 New York established a state CDFI Fund modeled after the federal CDFI Fund. This was the first state-based CDFI Fund in the country. Unfortunately, the state has yet to allocate funds to it. This year, there's been an unprecedented outpouring of support from 65 civil rights, faith-based, labor, and community groups and CDFIs from across the state, calling on the New York Legislature – you – to capitalize the NYS CDFI Fund in the budget.

We know you are in the throes of budget negotiation and strongly urge you and other Senators and Assembly Members to make funding the CDFI Fund a top priority – by speaking out in conference and by urging leadership to allocate $25 million to the NYS CDFI Fund. CDFIs maximize public dollars many times over – every dollar invested in CDFIs generatep $12 in loans – and funding them is a key step towards the kinds of broad solutions New York needs to build community wealth and ensure fair lending. New York State should also allow the state, as well as New York counties and municipalities, to place some public deposits in CDFI-certified credit unions.

Next, New York should take bold action to hold banks accountable, particularly as the Trump administration deregulates financial services and ceases to enforce fair lending and consumer protection laws. New York should support policies that hold banks responsible for meeting financial services and reinvestment needs throughout the state.

New York can start by publicly identifying banks' performance in these areas. Using input from community groups, public hearings and comments, and data research, the state should issue a biennial report focusing on whether and how mainstream banks are serving low- and moderate-income neighborhoods, neighborhoods of color, immigrant neighborhoods, and neighborhoods with large concentrations of older New Yorkers. It should also examine New

Yorkers' relative usage of "fringe," higher-cost financial services, including pawnshops, check-cashers, rent-to-own stores, prepaid cards, and money-wiring outlets, and the correlation between high usage and lack of access to fair and affordable financial services. The report would identify best practices and recommendations for addressing gaps identified.

New York should divest public deposits from banks it determines are not meeting the State's financial services and community reinvestment needs. And it should facilitate the establishment of public banking in New York, at state and municipal levels. Through public banking, New York can leverage public money to support vital sectors of the economy and foster cooperative and community-led economic development, while divesting from banks that finance corporate activities harmful to New Yorkers. Any public banking proposal should be crafted is close consultation with groups working in New York communities, to ensure that it reflects community needs. It must also be rooted in principles of economic and racial justice, public accountability, and transparency.

Bills to carve out exceptions to the New York's usury laws, which serve as a vital bulwark against discriminatory and predatory lending, should be rejected outright. First and foremost, the state should reaffirm that its policy is to prohibit payday and other high-cost predatory lending through: (1) our strong state usury laws capping interest rates at 25%; and (2) strict enforcement of our consumer protection laws. New York must continue to reject industry-backed payday lending bills, which purport to meet community needs when they are in fact thinly-veiled attempts to gut our longstanding usury and other consumer protection laws – opening the door in New York to high-cost, predatory lending. In more recent years, online lenders and other financial technology ("fintech") companies have sought to make and broker usurious loans in New York.

FORECLOSURE RISK IN NEW YORK STATE

JANUARY 2019

New Economy Project

This issue brief summarizes home foreclosure risk patterns across New York State, and updates our 2012 report, Foreclosures in New York: What's Really Going On?, and 2014 brief, Foreclosure Risk in New York State.[1]

A decade after the financial meltdown, hundreds of thousands of New Yorkers remain at risk of foreclosure – particularly in low-income neighborhoods and communities of color.

New York requires mortgage servicers to send "pre-foreclosure notices" to homeowners, at least 90 days before commencing a foreclosure action. New Economy Project analyzed and mapped pre-foreclosure notices sent to New York homeowners in 2017, using data obtained from the NYS Department of Financial Services, to show where New Yorkers are most at risk of losing their homes to foreclosure.

KEY FINDINGS[2]

- Across New York State, mortgage servicers filed a total of 167,848 pre-foreclosure notices.
- Almost half of these notices were sent to homeowners in New York City (24.1%) and Long Island (24.6%). Foreclosure risk was also high in Buffalo, Rochester, and parts of the Hudson Valley; combined, homeowners in these areas received almost 30% of all pre-foreclosure notices.
- Nine of the ten zip codes with the highest number of pre-foreclosure notices are neighborhoods of color.
- Residents of New York City neighborhoods of color received pre-foreclosure notices more than twice as often as residents of other neighborhoods, controlling for the number of owner-occupied housing units.
- Thousands of New Yorkers of color continue to bear the brunt of the subprime lending crisis. Almost two-thirds (65.4%) of all pre-foreclosure notices sent to people in New York City neighborhoods of color concerned loans made between 2002 and 2007.

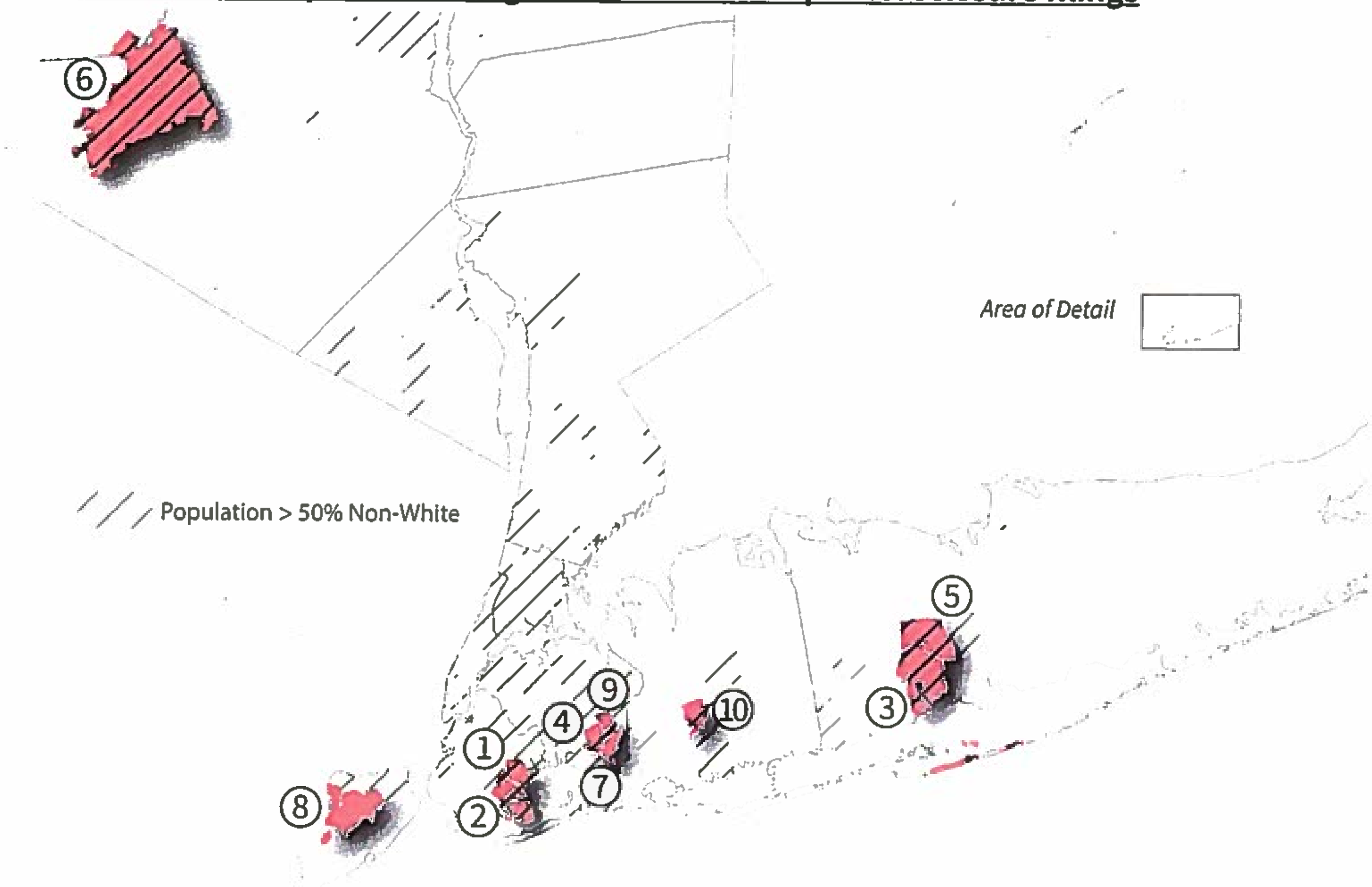
Counties with the most pre-foreclosure notices

	County	# of Filings
1	Suffolk	24,384
2	Nassau	16,944
3	Queens	15,115
4	Kings	11,705
5	Erie	9,284
6	Monroe	8,631
7	Westchester	7,847
8	Orange	6,224
9	Richmond	5,690
10	Bronx	5,451

[1] Previous reports available at neweconomynyc.org/type/publications.

[2] Findings are based on our analysis of initial pre-foreclosure notices sent in 2017. We also analyzed cases in which servicers sent more than one pre-foreclosure notice to the same recipient, a likely indicator that people are re-defaulting on their mortgages within a 12-month period. The reporting of subsequent notices -- now required under a change in state law that went into effect in December 2016 -- provides a more nuanced picture of foreclosure risk in New York. Statewide, subsequent notices constituted almost 20% of all notices sent. In New York City, mortgage servicers sent 9,239 subsequent notices.

New York State zip codes with greatest number of pre-foreclosure filings



Rank	Zip Code	Neighborhood	# of Filings	% Non-White Population
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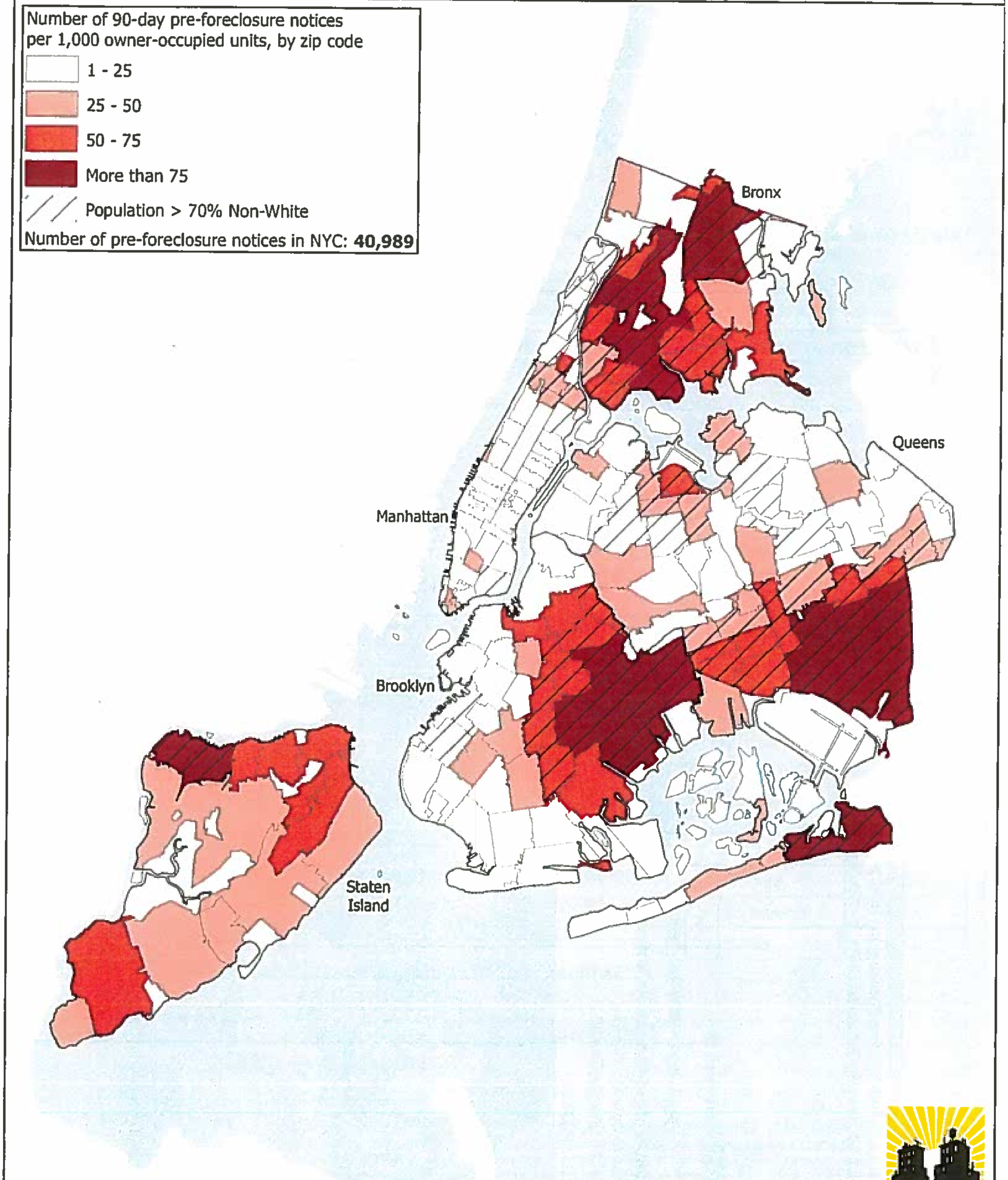
Data & Methodology

The New York State Department of Financial Services provided New Economy Project with "step one" 90-day pre-foreclosure notice data for 2017, as reported by mortgage servicers, and excluding personally identifiable information. New Economy Project cleaned the data, removing filings that were duplicates or associated with re-defaults for our analysis of first notices. New Economy Project analyzed pre-foreclosure notices regarding first- and second-lien mortgages filed on all reported property types (1-4 family homes, cooperative and condominium apartments, and other/unspecified property types). Data cited in this report includes only the first pre-foreclosure notice sent to an individual borrower about a particular mortgage, unless otherwise indicated. "Subsequent notices" are defined as second or third pre-foreclosure notices sent at least 90 days apart on loans with identical characteristics.

For zip-code-level numbers, the analysis relies on reported zip codes, and for county-level numbers, on reported counties. (In a limited number of cases, the zip code and county indicated in a record did not match.) Demographic information was drawn from the U.S. Census 2012-2016 American Community Survey 5-Year Estimates. "Non-white population" cited on the maps refers to people of all races and ethnicities, except non-Hispanic whites.

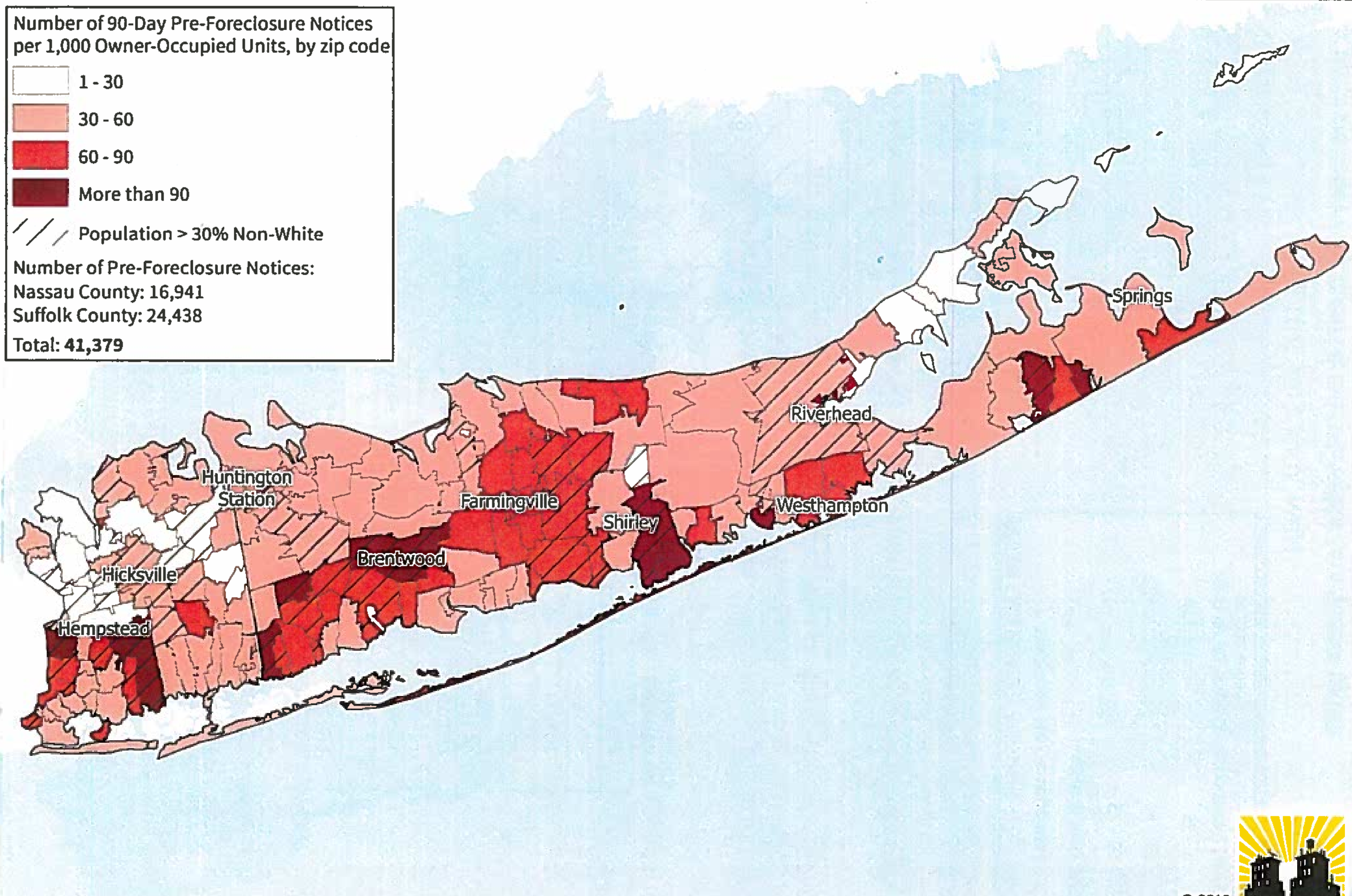
Report produced by Ben Hagen, Alexis Iwanisziw, and Sarah Ludwig. For more information, please email New Economy Project at info@neweconomynyc.org.

Foreclosure Risk
New York City, 2017



Sources: NYS Department of Financial Services (2018); American Community Survey (2016)

Foreclosure Risk
Long Island, 2017



Sources: New York State Department of Financial Services (2017); American Community Survey (2016)