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**Testimony Before the New York State Senate Finance Committee
and New York State Assembly Committee on Ways and Means:
Regarding the New York State Executive Budget for Housing, Fiscal Year 2016-2017**

February 1, 2016

Good morning. My name is Christie Peale, and I am the Executive Director of the Center for NYC Neighborhoods. I would like to thank Chair Young and Chair Farrell and members of the Assembly Ways and Means and Senate Finance Committees for holding today's hearing on the housing-related proposals in the Governor's Executive Budget.

About the Center for NYC Neighborhoods

The Center promotes and protects affordable homeownership in New York so that middle- and working-class families are able to build strong, thriving communities. Established by public and private partners, the Center meets the diverse needs of homeowners throughout New York State by offering free, high quality housing services. Since our founding in 2008, our network has assisted over 40,000 homeowners. We have provided approximately \$33 million in direct grants to community-based partners, and we have been able to leverage this funding to oversee another \$30 million in indirect funding support. Major funding sources for this work have included the New York City Department of Housing Preservation and Development, the New York City Council, the Office of the NYS Attorney General, NYS Homes and Community Renewal, along with other public and private funders.

Homeowners in the 2016-2017 Executive Budget

In his State of the State speech, the Governor announced a \$20 billion affordable housing and homelessness plan. We commend Governor Cuomo for this substantial, much-needed investment in New York State housing. At the Center, we're proud to be a part of a coalition of 10 affordable housing groups calling for a five year, \$4 billion capital plan to address our state's housing crisis. We look forward to learning more about the Governor's housing plan -- specifically how the \$1.4 billion Housing Program Fund will support affordable homeownership in this year's budget. As budget negotiations continue, we urge the Governor, Assembly, and Senate to take the needs of New York's middle- and working-class homeowners and their communities into account.

New Yorkers Continue to Struggle to Recover from the Foreclosure Crisis

As this year's budget is negotiated, it is important to keep in mind the homeowners and their communities, throughout New York State, that have been devastated by the dramatic increase in foreclosures since the 2008 financial crisis. Though our national economy has come back, albeit slowly and incompletely, from the depths of the recession, the foreclosure crisis continues to be a daily source of stress, confusion, and financial hardship for hundreds of thousands of New Yorkers statewide.

Today, the crisis has resulted in tens of thousands of foreclosures in New York State and still more homeowners struggling to make monthly mortgage payments. The negative impacts of the foreclosure crisis are felt statewide, 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 as a result of 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

Despite the fact that New York represented only 4.7% of the nation's mortgage loans in the first quarter of 2015, our share of the nation's loans in foreclosure was 11.6% - second only to Florida nationwide.³ At the same time, New York also had the second-highest percentage of loans in foreclosure at 4.77%. Since the end of 2012, New York has had one of the three highest foreclosure rates in the nation and is one of the slowest states to recover from the housing crisis.⁴

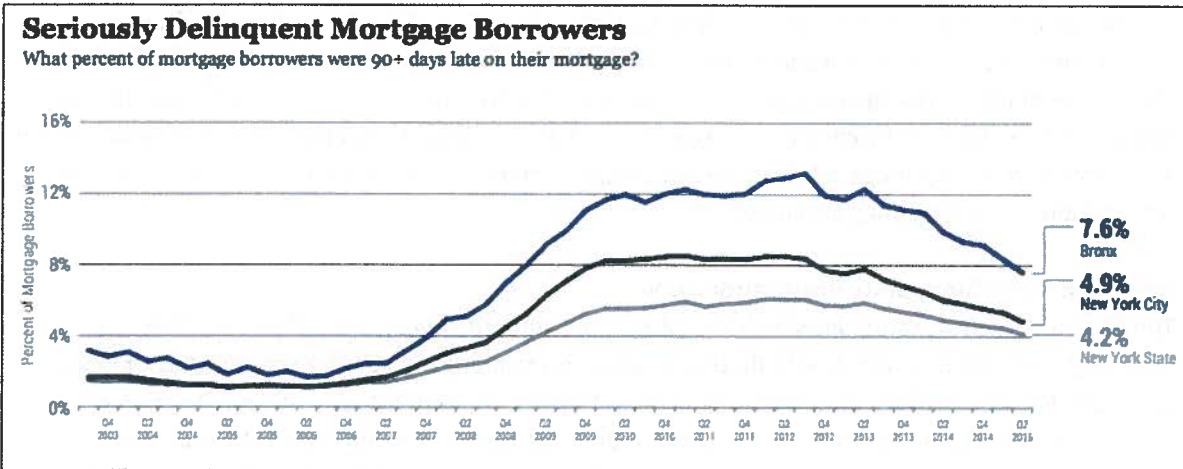
¹ Center for Responsible Lending, *Lost Ground, 2011: Disparities in Mortgage Lending and Foreclosures*, at 3. Available at <http://www.responsiblelending.org/mortgagelending/researchanalysis/LostGround2011.pdf>. See also National Community Reinvestment Coalition, *The Broken Credit System: Discrimination 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/nrcdiscrimstudy.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/researchanalysis/unfairlendingtheeffectofraceandethnicityonthepriceofsubprimemortgages.html>.

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

³ Report on New York's Foreclosure Process, Department of Financial Services, May 2015. Available at: http://www.dfs.ny.gov/reportpub/fore_proc_report_052015.pdf

⁴ Mortgage Foreclosures and Delinquencies Continue to Drop, Mortgage Bankers Association, Nov. 17, 2015. Available at: <https://www.mba.org/2015-press-releases/november/mortgage-foreclosures-and-delinquencies-continue-to-drop>

New York Fed: Regional Household Debt and Credit Snapshot 2015 Q2



Mortgage Servicing Challenges Remain

In New York State, tens of thousands of homeowners are working to keep their homes, but are faced with a mortgage servicing system moving too slowly. Communities across the state struggle to cope with vacant and abandoned properties that, if repaired and returned to the market, would be a source of desperately needed affordable housing as well as property tax revenue for municipalities.

Furthermore, national shifts in the mortgage servicing sector are leading to serious consequences for homeowners in New York State. Fannie Mae, Freddie Mac, and the Federal Housing Administration (FHA) are now selling distressed loans, at sizable discounts, to the highest bidder. Consequently, large private equity firms like Lone Star Funds, Bayview Asset Management, and Selene Finance LP are accumulating vast portfolios of distressed properties.⁵ Unfortunately, we are losing these homes from our affordable housing stock, and it seems highly unlikely that, once gone, they will ever be affordable to middle-class New Yorkers without a much more significant investment of public subsidy. As detailed in a recent New York Times article, some of these note purchasers are displacing current homeowners in hopes of taking advantage of rising prices.⁶

⁵ Warren Demands HUD Curb Sales of Soured Loans to Private Equity, Bloomberg Business, Sept. 29, 2015. Available at <http://www.bloomberg.com/news/articles/2015-09-29/warren-demands-hud-curb-sales-of-soured-loans-to-private-equity>

⁶ As Banks Retreat, Private Equity Rushes to Buy Troubled Home Mortgages," New York Times, Sept. 28, 2015. Available at <http://www.nytimes.com/2015/09/29/business/dealbook/as-banks-retreat-private-equity-rushes-to-buy-troubled-home-mortgages.html>

Recommendations:

This year's budget presents a great opportunity to help New York homeowners keep their homes, support new working- and middle-class homebuyers, and help New York neighborhoods recover from the foreclosure crisis. part of a coalition of 10 affordable housing groups calling for a five year, \$4 billion capital plan. We urge the Assembly, Senate, and Governor Cuomo to pass a budget that will dedicate \$250 million in funding over the next five years to support initiatives that will provide critical assistance to low- and moderate-income prospective and current homeowners. The \$250 million would support the following initiatives:

New York State Community Restoration Fund:

The Community Restoration Fund will strengthen communities throughout New York State by deterring speculation and property flipping in low- and moderate-income neighborhoods, helping communities reduce blight, and restoring desperately needed property tax revenue to counties and towns. The Community Restoration Fund will address diverse community needs by purchasing mortgage notes on 1-4 family homes at discounted rates, either through note sales or via other distressed sales such as auctions. Subsequently, homes have several possible pathways:

- Modify mortgages to affordable terms.
- Rent to the current homeowner with an option to purchase at a later time.
- Fund local, nonprofit development efforts to restore vacant properties as affordable housing available for purchase or rent.
- Demolish homes that are beyond repair and have become a blight in the community.

Housing Counseling and Legal Services

Housing counseling and foreclosure prevention legal services support homeowners at every step of the way in the homeownership process. This includes pre-purchase counseling for prospective homeowners and foreclosure prevention services and resiliency retro-fitting guidance for current homeowners. These services received State funding in previous years through HCR and are currently funded by one-time settlements with financial institutions through the New York Attorney General.

Single-Family Home Repair Fund

This initiative would increase existing grant resources for home repairs for New Yorkers statewide, as well as pilot loan loss reserves/guarantees to encourage banks and other financial institutions to make loans to low- and moderate-income homeowners with property maintenance needs.

New York State Downpayment Assistance Funding

In parts of the state with high real estate values, low- and moderate-income homeowners can have a difficult time taking advantage of existing downpayment assistance resources. Increased state support for downpayment assistance would be used to supplement resources that may have eligibility restrictions.

Thank you for the opportunity to testify and for your commitment to affordable housing in New York.