



## Neighborhood Economic Development Advocacy Project

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### TESTIMONY OF SARAH LUDWIG

#### BEFORE THE NYC COUNCIL COMMITTEE ON FINANCE

#### Oversight Hearing - An examination of the role of the Banking Commission in selecting depository banks.

*November 23, 2010*

Thank you for the invitation to testify at today's oversight hearing on the role of the NYC Banking Commission in selecting depository banks. My name is Sarah Ludwig and I am the founder and co-director of the Neighborhood Economic Development Advocacy Project. NEDAP is a non-profit resource and advocacy center that works with community groups to promote economic justice in New York City neighborhoods. We have also worked to eliminate discriminatory economic practices that harm communities and perpetuate inequality and poverty.

Since NEDAP's founding 15 years ago, NEDAP has been at the forefront of helping community groups promote reinvestment in affordable housing, small business and microenterprise development, and community-based financial institutions, in historically-redlined neighborhoods. We have also led the fight against abusive and discriminatory lending and foreclosure practices, using a variety of strategies, including policy advocacy, community education and outreach, coalition-building, and research and documentation. NEDAP convenes New Yorkers for Responsible Lending (NYRL), a coalition of 154 affordable housing, seniors, consumer, civil rights, and legal services organizations, along with community development financial institutions, that are dedicated to combating predatory and abusive financial services practices. NEDAP also runs the NYC Financial Justice Law Project, which provides an array of legal advice, representation, and know-your-rights education to lower income New Yorkers aggrieved by discriminatory and abusive consumer financial practices.

There is much to say about the role that the Banking Commission can and should play with respect to selecting banks for municipal deposits (and other business). For the sake of brevity, I will highlight just four quick points:

- 1. NYC should not place municipal deposits with banks that are failing to meet, or are in fact undermining, community credit needs.** Not only is this a matter of basic public accountability, but NYC also has tremendous leverage through its municipal deposits to encourage banks to meet community credit needs. The Banking Commission should require banks seeking to hold city deposits to submit an annual plan demonstrating how they will meet community credit needs in low and moderate income neighborhoods, through fair lending, banking services, and investment. They should also require the banks to submit an annual report documenting their activities under the plan.

**2. Bank redlining is alive and well in NYC.** NEDAP conducts extensive research on economic conditions in NYC neighborhoods. Our research has typically focused on fair lending and financial services access, as well as patterns of discriminatory mortgage lending, real estate, and foreclosure practices, which have been overwhelmingly concentrated in NYC's communities of color. Banks – and their subsidiaries and affiliates – that fail to meet community credit needs, or that engage in abusive and discriminatory practices, should not be rewarded with business from NYC.

NEDAP produces numerous maps, and our map showing the distribution of bank branches by neighborhood demographics [attached] should speak for itself.

Our research on mortgage lending over the past three years, for example, shows that banks are failing adequately to serve communities of color, which for more than a decade had been at the vortex of abusive subprime and exotic mortgage lending, and are now plagued by foreclosures. Between 2006 and 2008, the country's four largest financial institutions -- Bank of America, Citigroup, JPMorgan Chase, and Wells Fargo -- increased prime refinance lending in predominantly white communities in NYC, but significantly decreased access to prime refinance loans in communities of color.

**3. NYC should not place its deposits with banks that are failing to enter into effective loan modifications.** Foreclosure filings in New York City continue to mount – in fact, in NYC, since 2005, foreclosure filings per year have more than doubled. There are fundamental and well-documented problems with the mortgage servicing industry that are greatly exacerbating these problems, and present real obstacles to foreclosure prevention. Servicers are failing to get borrowers into affordable loan modifications, even where that would be the best outcome for both the investor and the borrower. Servicers have been causing extreme frustration and distress for homeowners and advocates by repeatedly losing paperwork, denying modification requests with no basis, misapplying payments, and plowing through with foreclosures even while homeowners are working on a loan modification. Many servicers are owned by banks, and NYC should use the leverage of municipal deposits to press servicers to enter into permanent and effective loan modifications and engage in other meaningful foreclosure prevention, as a condition of doing business with the city.

**4. Other major cities, including Chicago, Cleveland, and Philadelphia require banks to document their community reinvestment activities, as a condition of receiving city deposits.** These local ordinances are excellent models for NYC, and we are confident that more cities will pass responsible banking ordinances.

Thank you again for the opportunity to testify today, and for shining a light on the NYC Banking Commission and the need to ensure that NYC does business only with banks that have a plan for – and a demonstrated track record of – meeting community credit needs.