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TESTIMONY OF SARAH LUDWIG

BEFORE THE NYC COUNCIL

COMMITTEES ON COMMUNITY DEVELOPMENT AND FINANCE

Oversight Hearing – Int. No. 485
A Local Law to amend the NYC charter, in relation to classification of depository banks.

March 7, 2011

Thank you for the invitation to testify at today's oversight hearing on Intro. No. 485, concerning the classification of banks seeking to be deemed eligible for NYC deposits.

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 banking services, and investment. They should also require the banks to submit an annual report documenting their activities under the plan.

1. **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.

2. **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.

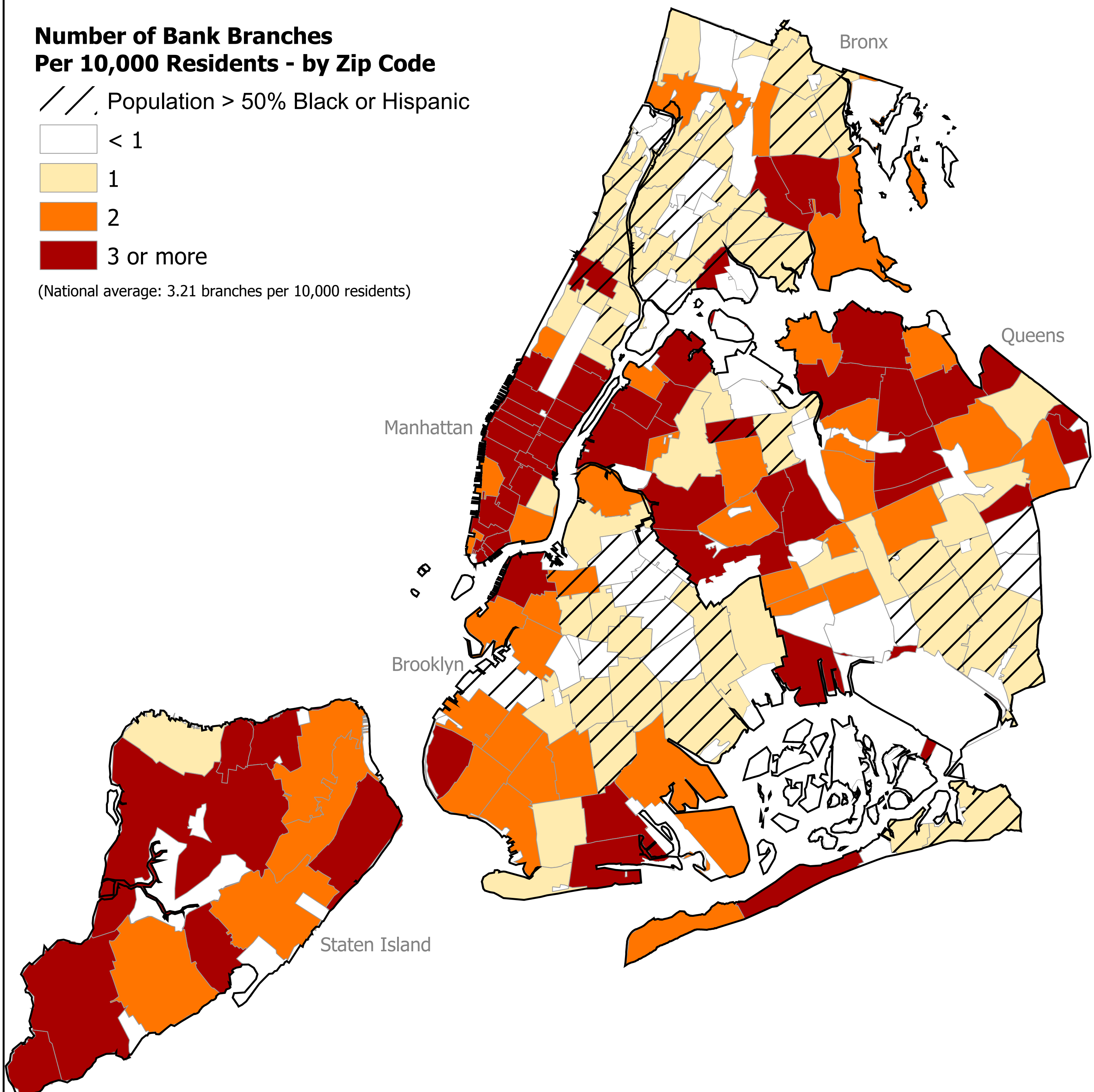
3. **Other major cities, including Chicago, Cleveland, and Philadelphia require banks to document their community reinvestment activities, as a condition of receiving city deposits.** These local ordinances are excellent models for NYC, and we are confident that more cities will pass responsible banking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

4. **Any potential administrative burden posed by the ordinance is overwhelmingly outweighed by the benefits to New York City and to NYC communities.** The NYC Responsible Banking Act would establish a productive framework for re-engaging banks, public officials, and community groups in a critical dialogue about local financial services needs. Over the years, with the regionalization of banks, federal regulators' generally lax enforcement of the Community Reinvestment Act, and the economic crisis, banks largely have pulled away from responding to local credit needs, and from coming to the table to work with local stakeholders to provide services, loans, and investments that bolster strong community development. By encouraging banks to serve, lend to, and invest in local small businesses, for example, the ordinance would greatly benefit the city by expanding the local tax base, increasing employment, and ultimately revitalizing distressed communities.

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.

Absence of Bank Branches in Communities of Color

New York City (2008)



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Sources: FDIC Summary of Deposits (2008); Census 2000