

Congressional Testimony

**“Modern-Day Redlining:
The Burden of Underbanked and Excluded
Communities in New York”**

**March 6th, 2020
Queens, New York**

**Testimony before
The Subcommittee on Consumer Protection and Financial Institutions,
U.S. House Committee on Financial Services**

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My name is Annetta Seecharran and I am the Executive Director of Chhaya Community Development Corporation, based here in Queens. I want to thank Congressman Meeks and Congresswoman Waters for inviting me to share Chhaya's perspective on how “modern-redlining” plays out in the lives of everyday New Yorkers. It is my honor to speak before you and the members of the Subcommittee.

Chhaya is a 20 year old organization, with the mission to build the power, housing stability, and economic well-being of South Asian and Indo-Caribbean communities. Our housing justice programs range from tenant counseling and organizing, to first time home buyer education and foreclosure prevention. Our economic justice programs include credit building, financial counseling and small business education and outreach.

In essence, our work is about the nuts and bolts of what it takes to make a living, have a roof over one’s head, and hopefully thrive. Being close to day to day realities of the people we serve--low to moderate-income immigrants and communities of color--we bare witness to extraordinary hurdles to the basics of functioning in our economy-- which include banking, access to credit, and personal asset building.

I believe the story of Mr. MD Haque, a long time client of Chhaya, powerfully illustrates these challenges.

Mr. Haque is a limited English proficient Bangladeshi immigrant in his mid-50s, with two sons and a wife, living in Jamaica, Queens. He first came to Chhaya in 2016 seeking help to set up a checking account because he had a bad experience trying to do so on his own. He was also unable to find a bank in his neighborhood with a teller who speaks Bangla--all the documents that were provided to him were in English. He did not understand what he was signing up for and uncertain about which bank to trust. What’s more, his first experience with financial products in the U.S. was with a predatory multi-level marketing scheme that has a history of operating in vulnerable immigrant communities. Mr. Haque was suspicious of the pushy salesperson and did not invest his money, but the experience heightened his concern about who to trust in this new world of financial services.

Like many immigrants, Mr. Haque’s most ambitious goal is to become a homeowner. And, although he was able to receive financial and first-time homebuyer counseling at Chhaya, he has a thin credit profile and very little savings, making this dream an illusive one.

Mr. Haque’s story is the reality of many immigrants. They are often consumed with making ends meet and establishing their new lives in a city where the cost of living continues to rise and wages remain stagnant. In fact, the cost of rent has increased in Queens approximately 30 percent over the last decade, while wages in Queens have barely changed in real terms from their 2010 levels.¹ What’s more, many immigrants are only able to find work in the low-wage and

¹ Investor Invasion: The Changing Landscape of Small Home Ownership in Queens, Chhaya CDC 2019

informal sector, earning cash and not able to participate in the formal banking system. Those that are able to participate in the formal banking system, often find it daunting, as the US system tends to differ greatly from what immigrants are used to in their home countries.

Challenges in Accessing Credit

Language Barriers

Mr. Haque's experience of facing language barriers in the banking system is a common one. South Asians and other immigrants seldom find credit marketing or detailed documents in their native language. In 2015 Chhaya participated in a study with the Urban Justice Center, which found that 40% of Bangladeshi immigrants and 70% of Nepali and Tibetan immigrants struggled to access financial services because of language barriers². While there has been some improvement in language accessibility for Bangla and Chinese communities other immigrant communities like Nepali, Tibetan, some Indian communities, Tamil and Telugu to list a few, still do not have access to bankers who speak or understand their language.

Weak Credit History

Like many immigrants, Mr. Haque also did not have a credit history. A lack of credit history is often used by financial institutions as a reason to turn prospective borrowers away. The daunting experience of trying to establish a first-line of credit makes many immigrants vulnerable targets for exploitative lenders.

In Mr. Haque's case, he was able to establish a credit profile by participating in Chhaya's peer lending circle program. Today, Mr. Haque has two lines of consumer credit and continues to work towards his goals.

At Chhaya, we see how access to culturally-competent and affordable programs like Peer Lending Program allows credit invisible individuals to make a stepwise and safe journey into the formal banking system.

Credit Needs for Small Businesses in Immigrant Communities

Chhaya has seen how limited access to credit not only affects consumers and homebuyers, but also applies to small businesses. South Asians, like so many immigrant groups, have high rates of self-employment. A lack of access to affordable financing often leads small business owners

² Bridging the Gap Overcoming Barriers to Immigrant Financial Empowerment in Queens, 2015

to search for loans through alternative means, many of which are predatory. The most tragic example of this is the trauma experienced by taxi drivers in New York, many of whom are South Asian, who took on predatory debt in order to finance the acquisition of a medallion, only to see their investment plunge underwater³. The New York Times recently profiled a Bangladeshi-born taxi driver named Mohammed Hoque. Mr. Hoque was encouraged to take on a \$1.7MM loan to purchase his medallion despite only earning \$30,000 per year. Today, Mr. Hoque has had his medallion repossessed and expressed that he did not understand the terms of the loan.⁴ This is just another example of how language barriers and a lack of understanding of the US financial system make South Asian immigrants easy targets for unscrupulous lenders who do not feel the pressure of enforcement.

This reality applies to other businesses as well. Street vendors who lease a vending license on the secondary market as well as small businesses operating in traditional storefronts or subleasing a store front with other businesses. In the Jackson Heights Commercial District Needs Assessment, which Chhaya completed in collaboration with NYC Small Business Services and the Street Vendor Project, 17% of small businesses cited financing as their primary concern.⁵ Many small businesses owned by immigrants continue to depend on informal loans, family connections, and other means of financing the start-up of a business. Immigrant-run small businesses are integral parts of the economy, fueling economic growth, and creating employment opportunities. The lack of access to affordable financing to start and grow these businesses limits the economic well-being of entire communities.

Obstacles to Asset Building and Homeownership

History of Exclusion

For many immigrants and people of color, the neighborhoods that provide affordable rents, transit, and opportunities for community building, are the neighborhoods that have historically experienced lending discrimination. This includes neighborhoods like Jamaica, Richmond Hill, South Ozone Park, Corona, and Flushing that were labeled “Hazardous” or “Definitely Declining” by the Home Owners Loan Corporation in the 1930s. Other examples are areas that experienced significant “white flight”, and with it a decline in social and economic infrastructure, during the 1970s, such as Jackson Heights. It is no surprise then that the legacy of redlining and racial discrimination has a clear and profound impact on members of the communities we serve.

³ *‘They Were Conned’: How Reckless Loans Devastated a Generation of Taxi Drivers*, New York Times, May 19, 2019.

⁴ *A \$1.7 Million Loan, \$30,000 in Income. Prosecutors Are Now Investigating*. New York Times, Sept 10, 2019.

⁵ Jackson Heights Commercial District Needs Assessment, NYC Small Business Services; Chhaya CDC; Street Vendor Project, 2020.

Perhaps there is no clearer example of this continued legacy of discriminatory lending than the predatory mortgage practices during the housing boom and crash of the 2000s. South Asian and other immigrant communities were targets of predatory lenders, a reality that demonstrates the continued lack of access to safe and affordable financial services for communities of color and immigrant New Yorkers. In 2009, Chhaya investigated foreclosure data and found an alarming number of South Asian New Yorkers experiencing foreclosure. In 2008, about 6,000 homeowners in Queens experienced foreclosure, with the most concentrated in south Queens. Through our analysis we found that 53% of foreclosure in Jamaica and Briarwood, 50% in South Ozone Park, and 46% in Jackson Heights were South Asian households.⁶ Many of these cases were the direct result of predatory lending practices perpetuated by non-bank lenders or irresponsible banks. Some of the issues we witnessed included excessive loan fees, unscrupulous balloon payments, and negative amortization that left homeowners with increasing balances and evaporating equity in their homes.⁷

Resurgence of Predatory Practices

Today we continue to see some of the same practices that were prevalent over a decade ago. Predatory practices are most often conducted by small banks that are not regulated with the same scrutiny as larger banks or non-bank lenders. These lenders fill a niche market for financially-excluded borrowers. Borrowers often lack sufficient financial capability, including knowledge of the basics of personal finance in the United States, needed to access mainstream financial services, so predatory loans represent the most accessible financing available to immigrants—particularly those with poor or no credit history.

Homeownership is the primary way families build wealth and for immigrants it is often the first point of engagement with credit, making them vulnerable to unscrupulous lenders. In many cases, the terms and conditions of contracts are not translated into the buyer's primary language and not explained in detail before they are asked to sign. Even when brokers, agents, and lenders speak the same language as the buyer, many times their goal is singular - to get the contract signed. They do not feel obligated or motivated to help their client understand the contents of a loan contract. In fact, Chhaya has recently encountered several lenders in Queens that provide loans without verifying income or credit. Just a decade ago, we saw how these very practices were responsible for many people losing their life savings and homes.

Online Banking Practices

⁶ Fifty Percent of Homes in Pre-Foreclosure are Owned by South Asians in Sections of New York, 2009

⁷ Finding a Path for South Asian Community Development, Chhaya CDC, 2014

As financial institutions continue to encourage marketing and even applications to online platforms, South Asian and other immigrant communities are left behind. Not only are websites not translated into needed foreign languages, but immigrant communities often lack the digital literacy to navigate these systems. At Chhaya, we've seen numerous cases where homebuyers are asked by bank representatives to set up an online profile and sign important disclosures such as Loan Estimates, Loan Applications, and Commitments which explain the terms and conditions of the mortgage. This system sets up clients with low digital literacy and language skills to sign documents that they cannot read, understand, or easily access again.

Persistent Discrimination

Chhaya has seen housing discrimination play out in various other ways. While fair housing protections have given communities of color tools to fight back against racial discrimination by real estate agents, sellers, and lenders, there continues to be a gap in fair housing regulation—the approval from the boards of co-op apartments. For many low and moderate income New Yorkers, co-ops provide the most affordable opportunity for homeownership and wealth building. Chhaya is supportive of the co-op housing model in general. However, in New York co-op boards are still allowed to reject applicants without providing a reason for the rejection. This has led to some confusing and unsettling experiences for Chhaya clients. One client was rejected by a co-op board after having been asked about the type of ethnic food they cook, and what kind of odors neighbors could expect to emanate from the apartment. Other clients with sound credit, savings, strong job histories, and steady incomes have been inexplicably rejected by co-op boards that lack the racial and ethnic diversity of the neighborhood at large, leaving us to question if race or national origin had a role to play in their decision.

Emblematic of this issue is the experience of Mr. Puna Ram Khanal, a Nepali immigrant, who signed on a contract for a co-op apartment in Woodside. He met all the requirements - including having excellent credit, income, savings, and a mortgage pre-approval from JP Morgan Chase. Mr. Khanal was given an interview with the co-op board that lasted only 10 minutes. He was subsequently notified that his application was denied. Given such a strong application, it is difficult to not suspect that Mr. Khanal was discriminated against because of his national origin. After filing a complaint with HUD, Mr. Khanal received approximately \$7,000 in damages from the co-op board.

Chhaya strongly believes that co-op boards should be required to make decisions and disclosures in line with fair housing protections.

Unaffordability and inability to compete with Investors

Chhaya has recently observed another growing trend that is impacting opportunities for immigrant communities to build assets. Certain neighborhoods in Queens have traditionally provided affordable and accessible opportunities for moderate income families to buy a home and build assets. However, now we are seeing an alarming rise of investors in the small homes market who are outbidding and crowding out immigrant families, people of color, and other moderate income buyers. In Chhaya's 2019 report entitled *Investor Invasion: The Changing Landscape of Small Home Ownership in Queens*, we found that investors have more than doubled their share of the available market for small homes. In the neighborhood of Corona, we found that a decade ago, ten percent of one and two-family homes on the market were bought by investors. Today, that number has grown to 30 percent. In Richmond Hill, 25 percent of one and two-family homes on the market are bought by investors, compared to just two percent a decade ago. This observation mirrors a trend occurring across the country: investors, private equity firms, and other financial entities are buying small homes, that were once available for first-time homebuyers and families, as rental properties or for house-flipping purposes.⁸

As a result of this trend, housing prices have climbed to prohibitive levels for community members. Even when clients can access loans, they are unable to compete with big real estate investors, many of whom are buying with all-cash offers or at loan-to-value ratios that exceed any reasonable limit. This practice is gutting our neighborhoods of families and replacing them with anonymous LLC landlords.

We see here a critical role for government oversight and regulations like the Community Reinvestment Act ("CRA"). We need to ensure that banks are not just lending in Low and Moderate Income (LMI) areas, but that LMI families are accessing these loans. Banks must be held accountable for lending to investors, particularly those that seek to flip homes and consequently destabilize communities.

Need for Stronger Protections

Chhaya believes our government can do a lot to alleviate the challenges we highlighted here today. First, consumers need stronger protections against predatory lending and practices that subject them to unsustainable debts. We want to see the Consumer Financial Protection Bureau reemerge as a consumer watchdog with punitive powers to curtail predatory practices. We want to see caps on interest rates, including for online loans that target credit invisible or individuals with thin credit profiles. Additionally, We believe that regulations, like the CRA, need to be strengthened and enhanced, to ensure that we continue to have tools to fight predatory practices. Any reform that dilutes and weakens the mission of the CRA will only lead to more

⁸ Investor Invasion: The Changing Landscape of Small Home Ownership in Queens, Chhaya CDC 2019

exclusion and predatory lending. Furthermore, it needs to be recognized that banks are failing to reach all communities equally. The federal government should support these communities by investing in the Community Development Financial Institutions fund and help non-profit providers access the resources needed to supply credit and financial services. We believe this is one of the most effective ways to fill the gap left by banks.

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