Association for Neighborhood & Housing Development

Testimony Before Senate Standing Committee on Banks on Why Signature Bank Failed and what can be done to prevent future bank failures in New York

May 30, 2023

Thank you to Committee Chair James Sanders and members of the Senate Standing Committee on Banks for the opportunity to testify on Signature Bank's collapse and what can be done to prevent future bank failures in New York.

About the Association for Neighborhood and Housing Development (ANHD)

ANHD is one of the City's lead policy, advocacy, technical assistance, and capacity-building organizations. We maintain a membership of 80+ neighborhood-based and city-wide nonprofit organizations that have affordable housing and/or equitable economic development as a central component of their mission. We are an essential citywide voice, bridging the power and impact of our member groups to build community power and ensure the right to affordable housing and thriving, equitable neighborhoods for all New Yorkers. We value justice, equity and opportunity, and we believe in the importance of movement building that centers marginalized communities in our work. We believe housing justice is economic justice is racial justice.

ANHD's work directly supports the needs of our members who develop, manage, and organize to preserve affordable housing, and who fight to bring equity into low-wealth communities in New York City—especially communities of color. Our groups rely on us for technical assistance and capacity-building resources that allow them to maximize their resources, skills and impact. The support services, research, analysis, public education and coalition building we do helps to identify patterns of local neighborhood experiences and uplift citywide priorities and needs. Our work translates into the capacity to win new programs, policies and systems that ensure the creation and preservation of deeply and permanently affordable housing, and economic justice.

ANHD's work on Signature Bank

Signature Bank's collapse comes as no surprise to ANHD, who has long called out their faulty business model, which relied on predatory and speculative activities in New York City. Signature paved the way for thousands of tenants to suffer living in unsafe conditions, the victims of harassment, or displaced from their homes and communities.

ANHD and our Equitable Reinvestment Coalition (ERC) have raised the alarm on Signature Bank's practices for years, especially their long-standing core business practice of making multifamily loans to bad acting landlords. Year after year, building after building, Signature consistently made multifamily loans that were speculative and underwritten to practices of displacement, harassment, or building neglect.

After a two-year campaign, from around 2016 - 2018, led by tenant organizers and tenants living in buildings across the city financed by Signature Bank, the bank formally and publicly adopted ANHD's multifamily lending best practices in July 2018. Tenants came from buildings owned by multiple landlords with a history of high violation counts, alleged harassment, and poor treatment of tenants. They rallied, delivered letters to the bank and regulators, and met directly and communicated with the Bank's Board of Directors and senior management over the course of nearly two years. They showed up at two annual shareholder meetings to make their voices heard by the Bank and its shareholders. NY State's Department of Financial Services issued similar guidance to all state-chartered banks, including Signature, just a few months later. Unfortunately, in the more than four years since that pledge, Signature Bank had yet to fully live up to its commitments and often fought back against doing so.

The flags were there. ANHD and the ERC submitted detailed comments with data and testimony about Signature's lending to landlords with public records of tenant harassment and poor conditions. We called on the regulators to downgrade Signature for their behavior and urged the bank to better address their systemic issues. Yet, Signature submitted just four out of 344 loans, with no consequences for financing any of the bad acting landlords they recognize as problematic. ANHD highlighted that Signature Bank failed two of their four Community Reinvestment Act (CRA) assessment areas, failed three of 12 sub-tests, and barely passed in most other subtests with a "low-satisfactory." Despite this, Signature was rated "Satisfactory" overall and passed their March 2022 CRA exam.

<u>Signature's History of Bad Lending</u>

There are a number of different reasons for Signature Bank's collapse, but an area ANHD and our members have been raising the alarm for years was their multifamily lending practices.

Signature was one of the city's largest multifamily lenders and practiced what we call "bad lending." Based on our research and analysis, we define "bad lending" as mortgages that may be speculative because they appear to be underwritten based on the assumption that rent-regulated tenants paying modest rents will leave at an unusually high rate. We also define "bad lending" as loans to developers with a documented history of harassment and displacement of tenants as a business model.

Here are some examples of bad lending from Signature:

Raphael Toledano

In 2016, tenants living in a portfolio of 20 buildings in the Lower East Side owned by the notorious landlord Rafael Toledano took to the streets, accompanied by elected officials and a brass marching band, and marched from the headquarters of Madison Realty Capital to Signature Bank to call them out for financing Toledano. Under Toledano's ownership tenants have faced a lack of essential services like cooking gas, buyouts with no attempts to follow new applicable laws (local laws 79, 80, 81); irresponsible construction that has led to collapsed ceilings and high lead dust contamination; and numerous lawsuits brought against tenants.

In September of 2015, private equity lender Madison Realty Capital loaned Toledano $124 million to buy 16 buildings throughout the East Village. He paid just $97 million for the portfolio. News coverage has documented some of the risky lending patterns that Madison Realty Capital maintains. The Real Deal later quoted a veteran real estate investor regarding this deal, saying that MRC's $124 million loan to Toledano left him "over leveraged," and that Toledano is now "pushing up rents to pay off a high mortgage." One of the mortgages Madison Realty Capital issued Toledano went as far as to require him to spend $2 million of the loan exclusively on tenant buyouts or renovations – practices which often trigger huge rent increases.

On the same day the mortgage was made to Toledano, Signature issued a loan to Madison Realty Capital with this same portfolio held up as collateral. All of this financing happened despite numerous articles about Toledano's practices, the most public being his alleged harassment of tenants through aggressive buyouts at 444 E. 13th Street, which led to a reported $1 million settlement.

Icon Realty
In 2017, Signature gave Icon Realty a loan to purchase a building in Manhattan. Icon has a history of harass and displacing tenants; Icon was under investigation by the Tenant Harassment Prevention Task Force, and in September 2017. They reached a $500,000 settlement in response to their alleged tenant harassment and the hazardous living conditions they created.

Signature loaned Icon $9.5 million towards a total purchase price of $17.5 million. From the existing publicly available data, this price looks to be nearly 40 times the rent roll. This is more than triple a commonly accepted rule of thumb for a responsible rent-roll multiplier. From what we can determine from the publicly available information, the total debt service coverage ratio of the building may also be significantly below 1.2X, a commonly accepted standard for responsible underwriting indicating that the current income on the property can pay off the mortgage without improperly or quickly raising the rents. The concern is clear: this loan appears to be underwritten based on the assumption that the low-rent paying rent-regulated tenants will be quickly pushed out of the building.

Because they were one of the largest multifamily lenders, Signature's lending practices matter and have major consequences on the lives of thousands of tenants who live in a Signature-financed building. The tenants in buildings owned by landlords whose poor treatment of tenants have made headlines – including Raphael Toledano, Icon Realty, Ved Parkash, and others – know this first-hand. They have reported facing aggressive buyout offers, lack of heat and hot water, dangerous construction and lead poisoning, rats, vermin, and more.

Ved Parkash
A bad landlord damages a community, sometimes with serious consequences. In the case of Ved Parkash's 750 Grand Concourse, the building's long-term rodent infestation problems flared up into a major public health scare. Tenants in Parkash's buildings have been dealing with problems for years, including poor conditions, vermin, and scores of potentially meritless eviction proceedings for nonpayment of rent. He is a regular on the Public Advocate's Worst Landlord List. Then things got much worse. In February 2017, newspapers reported that the building was stricken with a rare rat-transmitted illness that sickened two people and killed one.

In 2017, tenant organizers at New Settlement Apartments Community Action for Safe Apartments (CASA) and the Northwest Bronx Community and Clergy Coalition (NWBCCC), along with legal support from the Urban Justice Center (UJC), worked with tenants in multiple buildings owned by Ved Parkash. Tenants from these organizations publicly announced the formation of the Parkash Tenants Coalition in June 2016, which included residents in over 10 buildings who are working collectively to address issues in their homes. The coalition sued Parkash in housing court over four buildings where Signature Bank holds the mortgage, including 750 Grand Concourse, 1530 Sheridan Ave, 2454 Tiebout Ave, and 315 East 196th St.

Signature Bank made an $11.6 million loan to Ved Parkash for 750 Grand Concourse in March of 2016. At that time, Ved Parkash was named number one on the NYC Public Advocate's List of 100 Worst Landlords, which according to the list, the worst buildings in the Bronx include 2075 Wallace Ave., 750 Grand Concourse, 20 West 190th St. and 875 Longwood Ave.

With the reported and recorded history of unsafe and unhealthy building conditions, Signature Bank continued to lend to Ved Paraksh. This is another example of bad lending by Signature Bank

More Accountability for Banks

Lenders must be held accountable for the impact their lending to bad-actor landlords has on communities. This is especially true for lenders like Signature Bank that were covered by the CRA since banks can get CRA credit for loans on apartment buildings where the rents are affordable to lower-income tenants. However, regulators are becoming increasingly aware of the problems caused by bad landlords and bad underwriting, and will sometimes not give CRA credit if the buildings are in bad condition or if the loans lead to displacement or a loss of affordable housing.

We need stronger and consistent enforcement by our regulators. ANHD created the best practices in multifamily lending for banks to follow when determining who to lend to. Signature committed to following it, but unfortunately never implemented it, and we have shared in our testimony the impacts of bad lending. In 2018, the New York State Department of Financial

Services (DFS) issued guidance on responsible multifamily lending based on ANHD's best practices. We applaud DFS issuing strong guidelines to state-regulated banks to lend responsibly on multifamily buildings in order to preserve affordable rent-regulated housing and deter tenant harassment and unsafe living conditions.

However, we need a stronger CRA. There is currently no structural way under the CRA for banks to be downgraded for patterns of displacement in buildings they finance. A bank can be downgraded for an insufficient volume of community development lending, but not for harmful practices. ANHD and our members have written dozens of CRA letters over the years, documenting story after story of harm to tenants in rent-stabilized buildings, and none of it ever impacts the bank's CRA rating because of this limitation. Even if some of the loans are excluded, it is never enough to impact the volume of community development lending. Even one speculative multifamily loan impacts many people, as we saw with Madison Realty Capital and Signature's loans to a bad-acting landlord a few years ago that led to widespread harassment and displacement across multiple buildings. And too often, the volume is well over just one bad loan.

As we wait for the updated CRA to come up, we urge the regulators to:

1. Add Multifamily lending to the Retail Lending Test:
2. Evaluate for equitable distribution: location (LMI, BIPOC tracts) and affordable units (subsidized and unsubsidized)
    a. Problematic if (a) redlining and no lending in BIPOC communities or target same communities with no protections for communities there and/or (b) few affordable units
3. Quality analysis - weigh higher than distribution. Evaluate portfolio for quality lending
    a. Responsible lending
        i. Underwriting criteria based on income and expenses
        ii. Landlord vetting and actions taken when a landlord raises flags
        iii. Actions when problems arise
    b. Ongoing monitoring, and demonstrable evidence that best practices are helping

With New York City facing a housing and homeless crisis, we must ensure we can keep New Yorkers in their homes. We need to ensure banks are held accountable, and hold the landlords they lend to accountable, for harm and displacement that arises from bad lending.

Thank you for the opportunity to testify. If you have any questions or for more information, please contact Barika Williams (barika.w@anhd.org) or Will Depoo (will.d@anhd.org).