

Strengthening Communities: A Focus on Affordable Housing

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Thank you all so much. And thank you, John Kelly, for the great work that you do. It's a pleasure to be here.

Ensuring that every New Yorker has a safe, decent and affordable place to live is a huge task, and it won't be easy. But being here today reminds me that our state begins with an incredible advantage—a vibrant private and not-for-profit sector of developers, owners, managers, consultants, architects, advocates, and all of the other fine people and organizations that are part of the New York Housing Conference. We on the State level provide the funding and the financing, but you are the ones who truly make these projects happen, so on behalf of all New Yorkers, I want to thank you for the good work you do.

Let me also take a moment and reflect upon the legacy of someone whose memory is foremost in our minds today: your founder and longtime co-chair, Clara Fox. Clara was simply a great New Yorker. Her decades of work will always stand as an inspiration—not only to those who carry on her work of fighting for affordable housing, but to every New Yorker who fights for change, anywhere. Over the past few weeks, I'm sure that every member of the NYHC has asked themselves, "How can we do justice to everything she fought for?" Perhaps one simple answer is that you can always hold those of us in government accountable for our promises, as she always did, so passionately and so eloquently.

Let me also give special recognition to this year's outstanding honorees: Richard Richman of the Richman Group; John Reilly of the Fordham Bedford Housing Corporation; James Simmons III of Apollo Real Estate Advisors; and Dominic Carter of NY1 News. And let me especially thank William Daley, representing JP Morgan Chase, which has long been one of the finest corporate citizens that any city could ask for.

And let me thank my good friends Senator Liz Kreuger and Assemblyman Vito Lopez. Liz and Vito, during lean times, you led the way in keeping alive the hope of a sound housing policy on the State level. Thank you for being such strong and effective champions for affordable housing in the State of New York.

Let me also extend a warm "thank you" to those of you who served on our housing transition committee last year. In six weeks of work, you laid the foundation for much of what we were able to achieve.

And finally, let me recognize three members of our team in State government: Priscilla Almodovar, President and CEO of the Housing Finance Agency; Deborah VanAmerongen, Commissioner of the Department of Housing and Community Renewal; and Richard Neiman, our Superintendent of Banks. Those of you who work with these three individuals know that they are the very personification of what we were talking about when we promised to bring passion back to state government. Priscilla, Deborah and Richard, I want to thank you and your tremendous staffs for the great work you do; we could not be prouder to have you as a part of our team.

The Importance of Affordable Housing: Protecting the American Dream and Strengthening Communities

Today I want to reflect on the major ways State housing policy has changed this year, and then look ahead briefly to next year, before closing with a few words about the immediate actions we are taking to address the sub-prime lending crisis.

Stepping back for a moment, I believe that the story of our first year has been about replacing stagnation with action. In areas where Albany stood still for so long—reforming government, ensuring accountability in education, improving health care, building infrastructure, lowering property taxes—we are now moving forward.

Nowhere has this transition from stagnation to action been more evident than in the area of affordable housing.

There are two main reasons why we, as a State, care about the production and preservation of affordable homes.

The first reason is that, at the end of the day, our vision for New York is that it must be a place where anyone who works hard and plays by the rules can achieve the American Dream. Our goal is to protect that. And nothing—nothing—is more fundamental to the American Dream than a safe, affordable place to call home.

The second reason has to do with the importance of communities. New York State is not, fundamentally, a collection of regions, counties, or municipalities. It is a collection of communities. However its boundaries may be defined, our goal is for every community in New York to be strong—clean, safe, good health care, good schools, and economic opportunity for its residents. And there is no more fundamental building block for a strong community than safe, affordable housing.

Restoring a Diminished Legacy

I would like to claim that these ideas are new, but they're not. In fact, for over 100 years, they provided the basis for the State's housing policy. As John Zuccotti has pointed out, during that time, there was a bipartisan consensus that we all had a moral obligation—or at the very least an interest—in making sure our neighbors had access to safe, affordable homes. Since the mid-nineteenth century, New York had a proud legacy of leading the nation in this regard.

But as you all know, in recent years that legacy has been diminished. In fact, I'm told that before 2007, housing had not even been mentioned in a Governor's State of the State Address for the previous 12 years. Not only did the State disinvest in housing, it could not have happened at a worse time—a time when the housing market was driving rents and home prices to levels that were unaffordable for most New Yorkers.

We are all familiar with the legacy of those years. Thousands of units were lost as government subsidies expired. Poverty increased. Homelessness increased. Our very neediest New Yorkers sometimes literally found themselves out in the cold. One began to read about the middle class and our young adults leaving New York City and our downstate suburbs. And New York achieved the unwelcome distinction of having the largest gap between rich and poor in the country. Was it a coincidence that all of this happened at a time when State disinvested in housing? Not at all.

So when we took office on January 1, we declared—very simply—that affordable housing was a priority again.

But we did something that I believe was even more important than that.

We backed up this declaration with a critically important understanding: it's not enough to simply claim that housing is a priority. You must provide the resources to make it happen—because housing demands resources.

So, when we took office, we identified a need for new resources. But first, we had a much deeper and more immediate problem to deal with: the State's existing resources for affordable housing were not being used effectively.

Our first year has been dedicated to addressing this problem.

Transforming Government to Increase Resources for Affordable Housing

The Housing Finance Agency provides a good example. Here was an agency with a proud tradition; a dedicated and professional staff; and plenty of tools in its toolbox. The problem, however, was that Albany had sidetracked HFA from its core mission to such a great extent that its resources were largely not being used for affordable housing.

Instead, at HFA, the pipeline of projects was heavily dominated by 80/20 projects that would have likely been built anyway without the State's tax-exempt financing. By doing so, New York State was leaving on the table its most effective resource—the as-of-right 4 percent federal tax credits that you get only if you build low-income units. Furthermore, there was little support for preservation transactions, and HFA did not finance any supportive housing at all. As an example of misplaced priorities, the performance metrics that Albany used to evaluate the senior management team at HFA were “total units built,” “total number of bonds issued” and “total number of construction jobs created.” Absent from this list, of course, was a key metric: “production and preservation of affordable homes.”

Our goal in this first year—inspired in part by the discussions that took place on our transition committee—was to change this: to maximize available funding for the production and preservation of affordable homes.

To do this, we shifted HFA's pipeline by focusing our efforts on 100% affordable and preservation transactions. We focused on the State's Mitchell-Lama portfolio and actively reached out to developers. We proactively did outreach to not-for-profit developers throughout the state and urged them to integrate special-needs housing into larger projects. And finally, we in Albany gave HFA the freedom to be creative and fulfill their mission by re-investing their revenues into affordable housing.

In real terms, all of this has meant a huge increase in funding that was actually used to finance affordable housing.

Thanks to our effort to shift the pipeline, we have seen real results. If we look at the number of affordable units created and preserved, this year has been a good start.

- In 2006, we financed 16 projects for the construction or preservation of 1,200 affordable units. This year, we are on track to finance 29 projects for more than 3,800 units. That's over three times as many. Furthermore, of these 29 projects, three are supportive housing projects for the mentally ill or formerly homeless.
- Last year, our projects were expected to leverage approximately \$60 million in tax credit equity. This year, our projects are expected to leverage \$200 million of tax credit equity.
- And finally, last year, HFA spent less than \$5 million of its own resources to subsidize its projects—the rest were diverted to Albany. This year, HFA is on track to spend \$40 million of its own resources.

So we are doing more projects, we are doing the right projects, and we are doing them the right way.

I wish I could tell you about all of these projects, but I want to just tell you about one. Washington Avenue Apartments in the Bronx is a new project developed by The Arker Companies. All of the 118 units are reserved for low-income households. In addition, 30 of the units will be set aside to provide supportive housing for persons who are functional, but suffer from mental illness. This project never could have happened before; now, it is happening, and we should expect more projects like this to happen in the coming years.

Let's also look at the relationship between HFA and DHCR.

As you know, for 12 years HFA and DHCR barely spoke to one another, which led to inefficiencies and major missed opportunities for cooperation. But those days are over. Today, not only do HFA and DHCR have a relationship, they have an extremely productive one.

This year, they worked together to implement a single and streamlined application process for their two agencies, which is—for the first time—fair, open and transparent.

DHCR has also worked aggressively to preserve our existing stock of affordable homes through its regulatory powers. For example, for years, there had been a loophole in rent regulations program that allowed owners of Mitchell-Lama properties—or other buildings leaving rent regulation—to request a rent increase to market levels if they faced a “unique and peculiar” circumstance.

In recent years, the number of developers that have tried to use the “unique and peculiar” provision have increased. In fact, when we took office in January, the owners of 23 buildings in the Downstate region had applications pending to raise the rents for 4,400 units to market levels.

Had their argument prevailed, thousands of renters across New York City would have lost their apartments. But instead, DHCR took action to amend the regulation and closed the “unique and peculiar” loophole for good—preserving thousands of affordable homes.

In 2007, our commitment to affordable housing even extended past the housing agencies themselves.

For example, I asked the Office of General Services—which serves as the state government’s landlord—to examine its portfolio to determine if there are any parcels that are currently underutilized. The first of these parcels will be available for qualified developers early next year.

Building on This Year’s Success

So, on a macro level, our first year has been dedicated to ensuring that we make the most of our existing resources.

That effort has been successful. Our housing agencies are now firing on all cylinders. They are using all of their resources for a singular purpose: the production and preservation of affordable homes in New York, as quickly as possible. The logical next step is to increase the funding that the State provides for affordable housing.

Now—make no mistake—next year will be an extremely difficult budget year in Albany. There is a deficit of \$4.3 billion dollars, which means that we will have to make some very tough choices. We’re in the middle of a budget process in which hard trade-offs are being made among many worthy goals.

Nevertheless, we are going to work to expand our resources for affordable housing in next year’s budget.

I regret that I can’t offer details, because no final decision has been made. But I will tell you that we understand the need for more resources for affordable housing. We have made great strides this year, and we are committed to continuing these efforts next year. I look forward to

discussing our agenda further in the State of the State and the Budget Presentation next month, when final decisions will have been made.

Protecting New Yorkers during the Sub-Prime Lending Crisis

Let me now shift for a moment and briefly discuss an issue that is on all of our minds.

Everyone who cares about the strength of New York's communities and the status of the American Dream in our state has been deeply troubled by the sub-prime lending issue. It is a crisis that demands immediate action.

Make no mistake—the crisis is real. In the third quarter of 2007 alone, over 7,300 residents of New York City experienced foreclosure on their homes, an increase of 37 percent from the same period in 2006. In Queens alone, the number of foreclosures during the period increased fully 69 percent. And projections indicate the crisis is growing. The Congressional Joint Economic Committee predicts that, from 2007 to 2009, there could be an estimated 68,000 foreclosures in New York. When you translate that into dollars, it equates to more than \$9 billion in estimated losses to homeowners and neighboring property values. This would position New York as the having the fourth highest foreclosure rate in the nation.

In real terms, a foreclosure rate of this magnitude would plunge many New Yorkers, their families, and their children into poverty and threaten the stability of entire neighborhoods and entire communities.

So finally—after turning away while the crisis was building—President Bush last week proposed some actions to address it. While his proposal is an important first step, it is simply too narrow in scope to have a meaningful impact. Some estimate that their proposals only help 15 to 20 percent of those in need. Thousands of New Yorkers who are most in need of help—struggling with mortgages who are more than 30 days in default, close to foreclosure, or who have entered the foreclosure process—will not benefit at all. So both the federal government and the State must do more to protect New Yorkers who are suffering from this crisis.

Our effort to address the sub-prime crisis has in fact been underway since the spring, when we convened the HALT Task Force and charged it with developing a coordinated government response. From this task force, SONYMA announced the “Keep the Dream” Program, an innovative new program that will enable borrowers facing hardship to refinance at more favorable terms. And the Banking Department has implemented more rigorous underwriting and enforcement standards for lenders, including expanding the number of borrowers protected under New York law.

We are also taking action on three other fronts.

First, we are acting now to help New Yorkers who are already in trouble by leading a multi-state effort to push the mortgage servicing community to undertake the mass modification of loans. Leading a coalition of Governors and Attorneys General from 10 states, we have already met with 90 percent of the mortgage servicers to get our message across that mass modification is the

only meaningful way to keep the immediate crisis from getting worse. In the weeks and months ahead, we will continue to use our bully pulpit to push the industry to do the right thing.

Second, we are acting quickly to support all New Yorkers who are at risk. The best resource for New Yorkers who are shopping for a mortgage, being marketed refinance products, or having trouble with their mortgage is a homeownership counseling agency. In recent months, however, these agencies have been overwhelmed by the volume of calls and unable to respond to the needs of the public. Therefore, we have provided \$2 million dollars in desperately-needed emergency funding—in the form of matching grants—to give homeownership counseling agencies the tools they need to meet the additional demand and provide sound advice to New Yorkers.

And third, we are acting to prevent a crisis like this from happening again. We have directed our staff to work with the Legislature, consumer advocates and the lending industry to develop legislation targeted at preventing this crisis from happening in the future.

In the coming weeks, I will travel throughout the State to discuss the sub-prime lending issue and make sure they are ready to confront this crisis.

Who We're Fighting For

That is a summary of the progress we have made this year. I plan to discuss new initiatives further in my State of the State Address and the Executive Budget proposal I will announce next month. And I will work collaboratively with members of the Legislature—many of whom have championed these issues for a long time—as well as advocates and members of the development community to make these proposals a reality.

At the end of the day, I believe that the most important thing as Governor is to remember who you're fighting for.

To quote a recent editorial in praise of DHCR's action to save thousands of affordable homes by closing the "unique and peculiar" loophole: "The last thing the City needs is to become an oasis for the rich with no affordable places for teachers or police officers or firefighters or secretaries or nurses or ordinary people. That is not a real city."

For decades, those New Yorkers—and all of our neighbors who work hard and struggle to give their children a better life than they had—are the New Yorkers you have been building for. And they will always be the New Yorkers we are fighting for.

On the State level, we must do all we can to encourage—even increase—economic growth. We must build the infrastructure necessary to support a growing economy. We must reduce costs and make our business climate and our markets the most competitive in the world. We must support the industries that create so much of New York's wealth and nurture the industries that will do so in the future.

But we must never forget that the source of our historic greatness—and our only hope for the future—is to remain a place where anyone who works hard and plays by the rules can achieve

the American Dream. That is the vision we share. And I am confident that, by working together, we can overcome the challenges of the present moment and walk toward that brighter day.

Thank you.