

# Independent Democratic Conference & City of Mount Vernon Mayor Richard Thomas



## The Next Great

# American Bank Robbery

## *Westchester County*

January 2016



## INTRODUCTION

On January 5, 2016 the Independent Democratic Conference (IDC) released the report, “The Next Great American Bank Robbery.” The report highlighted financial institutions foreclosed on New York City properties, but have failed to properly maintain the properties they own as demanded by a property maintenance bill championed by Senator Klein and signed into law by Governor Paterson in 2009. The report made a set of recommendations in relation to the problem presented by bank-owned properties, and also advised the legislature and executive to sign the zombie property bill into law.

“The Great American Bank Robbery” is not solely a New York City problem, but one that affects jurisdictions across the state. In collaboration with Mayor Richard Thomas of Mount Vernon, the IDC investigated the effects of 82 bank-owned properties on residents and local governments throughout Westchester County. Additionally, the investigation focused on the negative consequences resulting from 107 vacant zombie properties that have become eyesores across Westchester County communities. The report highlights the building violations and complaints that have been accumulated by financial institutions which have legal ownership of the 82 bank-owned properties, their negative effect on the house value of surrounding properties, the disparate impact these bank-owned properties have on minority and low-income communities, and the house value depreciation caused by the 107 vacant zombie properties in the county.

The report concludes with a set of policy recommendations that will increase transparency and hold financial institutions accountable for their actions. The IDC and Mayor Thomas demand that: (1) the Department of Financial Services establish a registry that keeps track of vacant and abandoned properties across the state; (2) make the registry available to local municipalities and the Office of the Attorney General; (3) grant the Attorney General the right to begin legal procedures and impose fines, when necessary, for failure to adhere to New York State real property law; and (4) the legislature and executive sign into law the zombie property legislation drafted by Senator Klein at the request of the State Attorney General Eric Schneiderman.

### Key Findings

1. Loan servicing companies have accumulated close to 180 violations and over 165 complaints on foreclosed homes they possess across Westchester County.
2. Over 75 percent of bank-owned properties have received either a violation or complaint by the local municipal government.
3. Westchester homeowners in areas surrounding neglected, bank-owned properties have suffered over \$9.2 million in house value depreciation.
4. While only ten of the 30 zip codes researched in this report are considered minority communities (less than half); close to 60 percent of the bank-owned properties are in these communities (more than half)
5. While only five of the 30 zip codes studied were identified as low-income, 40 percent of bank-owned properties are in low-income neighborhoods.
6. The property value of Westchester homes neighboring vacant zombie properties have fallen a collective \$10.8 million.

## **PART I: BACKGROUND INFORMATION**

### **The Duty To Maintain**

On December 15, 2009 Governor Paterson signed into law one of the strongest foreclosure protection bills in the nation. Within the legislation, a provision championed by Senator Klein was embedded to amend Chapter 507 of the New York State Real Property Law to protect foreclosed properties in the wake of the subprime foreclosure crisis. The provision, known as the property maintenance requirement, requires that property owners, such as financial institutions awarded a judgment of foreclosure be responsible for meeting the property maintenance standards as prescribed by the New York State Property Maintenance Code Chapter Three. Furthermore, the provision gives municipalities, tenants, or boards of managers, with regards to condos, the right to enforce the duty to maintain and have a cause of action to recover costs incurred as a result of maintaining the property.

### **Department of Financial Services Agreement**

As a part of an ongoing effort to reduce blight and alleviate the burdens on local communities beyond just bank-owned properties, the Office of the Governor, in conjunction with the New York Division of Financial Services (NYDFS), prioritized the issue. In May 2015, NYDFS entered into an agreement with 11 financial institutions, representing nearly 70 percent of the New York State housing market, to address the problems associated with zombie properties.

The agreement called for NYDFS and lending companies to use a set of best practices beginning in August 2015. These best practices suggest that: (1) financial institutions will conduct an exterior inspection of a property within 60 days, and then 30 days thereafter, upon bankruptcy filing, cease and desist order, threats of violence, or active loss mitigation efforts; (2) financial institutions will perform their due diligence to determine vacancy and abandonment; (3) financial institutions will secure all properties seven days after it is legally found to be vacant and abandoned; (4) financial institutions will take the necessary steps to maintain properties secured as vacant and abandoned; and (5) financial institutions will, within 30 days of securing the property, notify NYDFS who will, upon review, then share the information with local authorities.

### **Zombie Property Legislation**

The IDC and Mayor Thomas do not believe that this gentlemen's agreement does enough to protect our communities. While 11 financial institutions, representing nearly 70 percent of the housing market, is a significant feat, it still does not cover all financial institutions or the entire state housing market. Furthermore, as this report highlights, financial institutions currently fail to maintain properties they already legally possess, evidence that there is reason to doubt they will adhere to the agreement and maintain properties they do not yet possess.

The agreement will be challenging to enforce if banks are under no duty or penalty of law. To that end, Senator Klein proposed zombie property maintenance legislation that will require that all banks and loan servicing companies maintain vacant and abandoned properties from the point in time it is discovered that the property is vacant or abandoned. Additionally, the legislation asks to establish and maintain a statewide registry of vacant and abandoned properties with pertinent contact information for each property. And lastly, the legislation calls for the attorney general to set up a toll-free hotline for neighbors and community residents to report properties they believe to be vacant and abandoned, report problems associated with the properties, inquire about the foreclosure status of these properties.

## PART II: BANK-OWNED PROPERTIES

### Identifying Bank-Owned Properties

In the fall of 2015, the IDC and the Office of Mayor Thomas did a survey of bank-owned properties in Westchester County using the reputable real estate tracking site RealtyTrac.com. Using the site as source, a total of 148 properties were identified as bank-owned and having been awarded a judgment of foreclosure; thus falling under the obligation laid out in Section 6 of Chapter 507 of the Laws of 2009.

The IDC and the Office of Mayor Thomas then sought to confirm the list of the 148 owners retrieved from the RealtyTrac.com site. To do so, analysts contacted the Office of the Assessor in each municipality containing a bank-owned property, as deemed by RealtyTrac.com. Upon going through this process, a grand total of 82 properties were confirmed as bank-owned.

### Accumulated Violations and Complaints

Building code violations and complaint fees vary across municipalities located in Westchester County. To compile data on the amount of money banks owe municipalities, a Freedom of Information Law request was filed with each municipality containing at least one confirmed bank-owned property. Using the information received from each municipality, analysts were able to generate a database of violations, complaints, and all associated fees accumulated by bank-owned properties across Westchester County.

**Financial institutions in New York owning properties in Westchester County have accumulated close to 180 violations and over 165 complaints.** The most egregious properties are located in the Cities of New Rochelle, Mount Vernon, and Yonkers. The seven bank-owned properties in New Rochelle have accumulated the largest number of violations, totaling 110. Similarly, the seven bank-owned homes in New Rochelle have accumulated the largest number of complaints, totaling 51. In total, 78 percent of all bank-owned properties in Westchester County have accumulated violations and complaints. Table I summarizes bank-owned properties that have accumulated violations and/or complaints classified by municipalities.

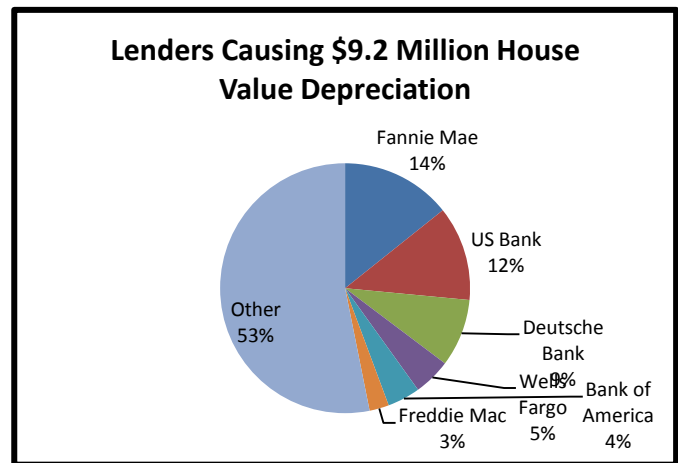
Table I. Summary of bank-owned properties with violations and/or complaints by municipalities

<b>Municipality</b>	<b>Total Properties</b>	<b>Total Violations</b>	<b>Total Complaints</b>
City of Yonkers	22	8	51
City of Mount Vernon	20	30	46
City of New Rochelle	7	110	54
Hamlet of Cortlandt Manor	5	1	2
Town of Ossining	3	0	9
City of Peekskill	3	29	1
Hamlet of Bedford Hills	1	0	1
Village of Briarcliff Manor	1	0	1
Village of Hastings on Hudson	1	0	1
Town of Eastchester	1	0	1
<b>Total:</b>	<b>64</b>	<b>178</b>	<b>167</b>

## House Value Depreciation

While the New York State property maintenance code was written to primarily preserve housing stock and guarantee safe and habitable conditions for tenants, house price value conservation and even appreciation is a key positive externality resulting from the code. Homes are in part valued by the state of their surrounding community, and proper maintenance of neighboring homes positively contributes to the state of a home's surrounding community. In other words, homes that are located in communities with properly maintained surrounding properties either preserve their value or experience an appreciation in value. Conversely, homes located in dilapidated neighborhoods with, for example, multiple foreclosed homes having accumulated numerous complaints and violations, tend to depreciate in value.

Since the start of the subprime mortgage crisis, myriad studies have been conducted to measure the effect bank-owned foreclosed homes have on the house value of surrounding homes. A paper published in 2012 by the Center for Responsible Learning cites the study, "The Contagion Effect of Foreclosed Properties," where the authors, Harding et al. estimate that, on average, a foreclosed home reduces the house price value of homes located within a 300-foot radius by 1.3 percent.<sup>1</sup> Ultimately, they concluded that this results in a house price value depreciation of, on average, \$5,000 per property within a 300-foot radius.



The IDC and the Office of Mayor Thomas conducted a data analysis to determine the number of homes whose values have depreciated due to surrounding bank-owned properties. First, all properties were categorized by zip code. Then, each zip code was entered into the American Fact Finder website managed by the United States Census Bureau to extract the number of one-to-four family units located in each zip code. Next, using the site ProximityOne.com, which provides land area information for each zip code using 2010 Census data, the square mileage of each zip code was converted into square footage. Then, by dividing the total number of one-to-four family units in the zip code by the total square footage of the zip code, the analysts were able to determine the number of one-to-four family units per square footage. Then, by multiplying the number of one-to-four family units per square footage by the area of a 300-foot radius, it was determined that a total of 449 properties lied within the area of a foreclosed home. However, because some zip codes have multiple bank-owned foreclosed homes, the number of bank-owned homes compounded the effect on non-bank-owned homes in those areas.

Ultimately, the research and analysis concluded that 1,783 properties in Westchester County had depreciated in price value. **On average, each property lost approximately \$6,810 in value, and in total bank-owned foreclosed homes in Westchester County have caused over \$9.2 million in house value depreciation.** Table II summarizes the data on house value depreciation caused by bank-owned properties in Westchester County.

<sup>1</sup> Harding, J., Rosenblatt, E., Yao, V. (2008). *The Contagion Effect of Foreclosed Properties*. Journal of Urban Economics, Vol. 66, No. 3, pp. 164-178.

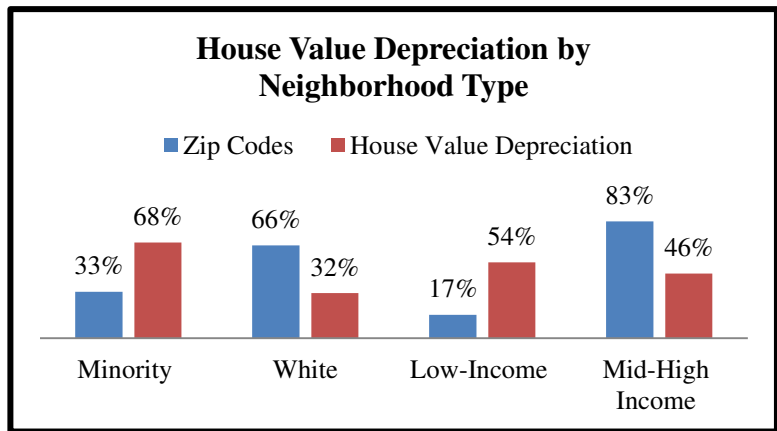
Table VI. Summary of house value depreciation caused by bank-owned properties in Westchester County

Municipality	Bank-Owned Properties	Total Properties Affected	Median House Price Value	Average Property Depreciation	Total Depreciation
Armonk	1	2	\$1,000,000	\$13,000	\$26,000
Bedford	1	1	\$918,200	\$11,937	\$11,937
Bedford Hills	1	2	\$566,400	\$7,363	\$14,726
Briarcliff Manor	1	3	\$672,500	\$8,743	\$26,228
Larchmont	1	13	\$925,300	\$12,029	\$156,376
Mohegan Lake	1	5	\$325,500	\$4,232	\$21,158
Mt. Kisko	1	2	\$560,700	\$7,289	\$14,578
Mt. Vernon	20	810	\$372,433	\$4,842	\$3,922,020
Ossining	3	18	\$433,500	\$5,636	\$101,439
Peekskill	3	45	\$310,220	\$4,033	\$181,479
Cortlandt	5	16	\$407,900	\$5,303	\$84,843
Rye	1	6	\$1,000,000	\$13,000	\$78,000
South Salem	3	6	\$614,200	\$7,985	\$47,908
Tarrytown	1	6	\$537,200	\$6,984	\$41,902
Yorktown Heights	5	19	\$437,000	\$5,681	\$107,939
White Plains	3	45	\$481,633	\$6,261	\$286,301
Yonkers	21	575	\$380,550	\$4,947	\$2,854,526
Hastings-on-Hudson	1	9	\$644,700	\$8,381	\$75,430
Bronxville	1	12	\$457,600	\$5,949	\$71,386
Eastchester	1	24	\$590,300	\$7,674	\$184,174
New Rochelle	7	164	\$401,500	\$5,220	\$954,507
<b>Total:</b>					<b>\$9,267,857</b>

### Disparate Impact on Minority and Low-Income Communities

Further research and data analysis reveals that bank-owned foreclosed homes in Westchester County have had a disproportionately large effect on communities predominantly composed of minority and low-income residents. Time after time, minority communities are the victims of unfair housing practices, and low-income communities often experience neglect. This time, New York State must work to protect all of its residents equitably and provide a system that will prevent financial institutions from affecting some of its most vulnerable residents.

For the purpose of this report, the analysts defined a minority community as one comprised of 50 percent or more black and Hispanic residents and a low-income neighborhood was classified as any zip code with a poverty rate greater than the 15 percent New York State average.<sup>2</sup> Demographics data for each zip code was retrieved from the American Fact Finder website managed by the United States Census Bureau. The information extracted revealed that only ten of the 30 zip codes



<sup>2</sup> New York State poverty rate found: United State Census Bureau. (2013). *New York*. United States Department of Commerce. Retrieved from <http://quickfacts.census.gov/qfd/states/36000.html>

researched are predominantly black and Hispanic and only five of the 30 zip codes are considered low-income by the outlined definition.

While only one-third of the zip codes were identified as predominantly black and Hispanic, close to **60 percent of all bank-owned properties are located in neighborhoods of color.** Using the 300-foot radius as a base to calculate the number of surrounding homes affected, it was concluded that the house value and quality-of-life of 1,311 surrounding properties and their respective homeowners were depreciated. To be specific, the 1,311 properties of the total 1,783 affected have suffered over \$6.3 million in house value depreciation of the estimated total \$9.2 million, and accumulated close to 40 percent of all property violations and 60 percent of all complaints.

**Thirty-four of the 82 bank-owned properties, or 41 percent, are located in low-income neighborhoods across Westchester County, though only five of the 30 zip codes researched were classified as low-income.** These 34 foreclosed homes have affected close to 1,040 properties in their vicinity. Data analysis reveals that these 1,040 properties in low-income areas have experienced close to \$5 million in house value depreciation, of the total \$9.2 million, and have accumulated over 30 percent of all building violations and close to 55 percent of all complaints.

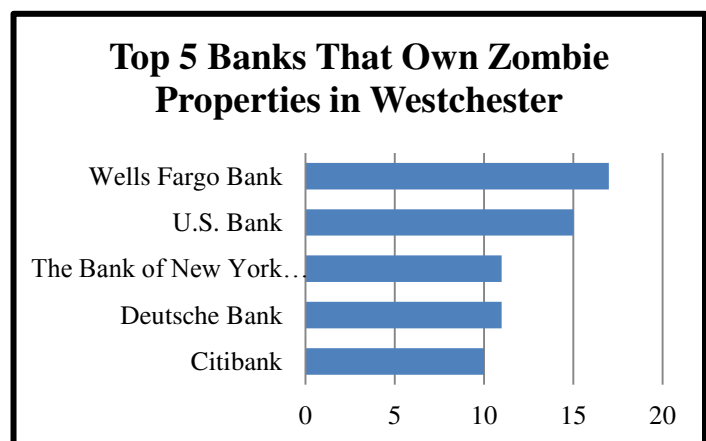
### PART III: ZOMBIE PROPERTIES

#### Identifying Zombie Properties

A list of zombie properties, otherwise known as vacant and abandoned homes, was retrieved from the California-based company RealtyTrac. Their database revealed that as of January 2016, Westchester County had 561 zombie properties. According to the data received, properties were deemed abandoned if the owners had moved or vacated the premises. Forwarding U.S.P.S. mail was used as a proxy for an owner having moved, and a property not receiving any mail was used as a proxy for an owner having vacated the premises. In an effort to be as conservative as possible in the analysis, only properties that were deemed vacant were selected. After removing all properties classified as having owners that moved, a grand total of 107 vacant properties remained and were analyzed for this report.

#### House Value Depreciation

Similar to the effect that vacant bank-owned properties have on the house value of neighboring properties, vacant zombie properties also depreciate the value of homes in their surrounding areas. While a zombie property is legally a foreclosed home, enough similarities exist between a vacant zombie property and a vacant bank-owned property to perform a similar analysis. As a result, the same 1.3 percent depreciation estimate as established by Harding, et al. in “The Contagion Effect of Foreclosed Properties,” was used to determine the house value depreciation caused by zombie



properties. Upon retrieving all necessary geographical and housing data for each zip code with at least one vacant zombie property, the investigation concluded that **the 107 vacant zombie properties across Westchester County have caused neighboring properties to lose over \$10.8 million in property**

**value.** Table III summarizes the total property value depreciation associated with vacant zombie properties across Westchester County.

Table III. Summary of house value depreciation caused by vacant zombie properties in Westchester County

<b>Municipality</b>	<b>Total Vacant</b>	<b>Total Properties Affected</b>	<b>Median House Price</b>	<b>Average Property Depreciation</b>	<b>Total Depreciation</b>
Armonk	1	2	\$1,000,000	\$13,000	\$26,000
Buchanan	1	6	\$372,000	\$4,836	\$29,016
Croton On Hudson	2	6	\$492,800	\$6,406	\$38,438
Dobbs Ferry	3	36	\$586,400	\$7,623	\$274,435
Elmsford	4	24	\$420,400	\$5,465	\$131,165
Harrison	1	11	\$664,700	\$8,641	\$95,052
Mamaroneck	4	61	\$595,800	\$7,745	\$472,469
Mohegan Lake	2	10	\$325,500	\$4,232	\$42,315
Montrose	1	4	\$357,300	\$4,645	\$18,580
Mount Kisco	1	2	\$560,700	\$7,289	\$14,578
Mt Vernon	19	805	\$372,433	\$4,842	\$3,897,511
Ossining	4	21	\$433,500	\$5,636	\$118,346
Peekskill	13	193	\$310,200	\$4,033	\$778,292
Cortlandt Manor	3	9	\$407,900	\$5,303	\$47,724
Pleasantville	2	12	\$629,800	\$8,187	\$98,249
Rye Brook	6	118	\$519,700	\$6,756	\$797,220
Rye	1	6	\$1,000,000	\$13,000	\$78,000
Somers	3	16	\$461,900	\$6,005	\$96,075
Tarrytown	1	6	\$537,200	\$6,984	\$41,902
Valhalla	2	7	\$596,400	\$7,753	\$54,272
Yorktown Heights	2	8	\$437,000	\$5,681	\$45,448
White Plains	6	69	\$548,033	\$7,124	\$491,586
Yonkers	18	465	\$387,100	\$5,032	\$2,340,020
Bronxville	4	49	\$457,600	\$5,949	\$291,491
Eastchester	2	48	\$590,300	\$7,674	\$368,347
New Rochelle	1	24	\$460,700	\$5,989	\$143,738
<b>Total:</b>					<b>\$10,830,269</b>

## **PART IV: LEGISLATIVE SOLUTIONS**

### **Policy Proposal I: Bank Owned Property Legislation**

Section Six of Chapter 507 of the New York State Real Property Law extends the duty to maintain property to owners, such as financial institutions that were awarded a judgment of foreclosure, and allows municipalities, tenants, or boards of managers with regards to a condo, the right to enforce the duty to maintain after at least seven days' notice, unless emergency repairs are required, and to have a cause of action to recover costs incurred as a result of maintaining the property. However, with close to 180 open violations on properties that have a judgment of foreclosure in Westchester County, it is evident that financial institutions have not complied with their duty to maintain. Furthermore, it has become clear that it is challenging for municipalities to identify lenders to enforce the duty to maintain and the legal process to recover the costs incurred is cumbersome and costly. In an effort to increase transparency for municipalities and hold financial institutions accountable for their actions, the IDC and Mayor Thomas propose:



1. The Department of Financial Services establish a registry that tracks bank owned properties in New York State, recording the owner of each property and for those properties with mortgages, tracking the name and direct contact information for individuals responsible for the property on behalf of the lien holder and mortgage servicer.
2. Local governments be granted permission to use the registry to track complaints and violations accumulated by each bank-owned, foreclosed property to enforce their right to maintain and recover all costs incurred.
3. The Office of the Attorney General use the registry to track complaints and violations accumulated by bank-owned foreclosed properties to impose fines and initiate legal procedures against financial institutions failing to comply with the duty to maintain.

## **Policy Proposal II: Zombie Property Maintenance Legislation**

The conversation on vacant and abandoned properties has recently shifted to include properties that are not just bank-owned, but also properties that are deemed vacant and abandoned and stalled somewhere in the foreclosure process—colloquially known as zombie properties. At the request of New York State Attorney General Eric Schneiderman, Senator Klein introduced legislation to address the blight associated with vacant and abandoned properties and zombie properties in New York. However, much to the Senator and Attorney General’s dismay, the zombie property legislation has failed to move forward over the past two years. As a first step, and with the instruction of the executive, the NYDFS entered into an agreement with 11 financial institutions to use best practices that would reduce blight and alleviate burdens on local communities by identifying, reporting, and maintaining zombie properties. But as this report highlights, financial institutions currently fail to maintain properties they legally possess. Who is to say they will adhere to the terms of the agreement and maintain, for example, the 107 vacant zombie properties in Westchester County they do not yet legally own if there is no duty or penalty of law? To that end, the IDC and Mayor Thomas propose that the legislature and administration pass zombie property legislation that would:

1. Require mortgagees and their loan servicing agents to maintain vacant and abandoned properties from the point in time that it is discovered that the property is vacant and abandoned.
2. Create a statewide registry of vacant and abandoned properties, recording the owner of each property and for those properties with mortgages, tracking the name and direct contact information for an individual responsible for the property on behalf of the lien holder and mortgage servicer.
3. Require the attorney general to set up a toll-free hotline for neighbors and community residents to report properties that they believe to be vacant and abandoned, report problems, as well as to find out information regarding the foreclosure status of these properties.

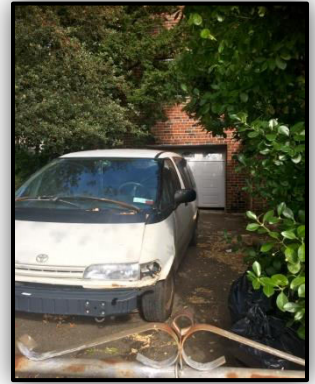
## **CONCLUSION**

Five years have passed since a provision was added to Chapter 507 of the New York State Real Property Law that requires financial institutions to maintain their properties upon receiving a judgment of foreclosure, and also gives municipalities the right to maintain and recoup all costs incurred from lenders. However, as of January 2016 there still remain close to 82 bank-owned properties in Westchester County, with 78 percent possessing open violations and complaints. These properties have caused over \$9.2 million in house price value depreciation, and have had a disparate impact on vulnerable minority and low-income communities. Realizing that the process for municipalities to

enforce their right to maintain and recoup all costs incurred is cumbersome and costly, the IDC and Mayor Thomas propose the Department of Financial Services establish a registry to track all properties owned by financial institutions with direct contact information that can in turn be used by municipalities, and grant the Office of the Attorney General the right to impose fines and begin any necessary legal procedures against financial institutions violating the law. Furthermore, to address issues associated with properties stalled somewhere in the foreclosure process, such as the 107 vacant zombie properties in Westchester County causing \$10.8 million in property value depreciation, the IDC and Mayor Thomas propose the legislature and administration sign the zombie property maintenance bill into law. These efforts would facilitate the teamwork needed between municipalities, the state, and financial institutions to protect our communities from blight.

## Appendix A: Visual Documentation of Bank-Owned Foreclosed Properties

### I. Mount Vernon Properties



### II. New Rochelle Properties



### III. Yonkers

