

Testimony of the Community Economic Development Division of Rural Opportunities  
Inc.  
Rochester, New York

My name is Hubert Van Tol. I'm the Director for Economic Justice for Rural Opportunities Inc. (ROI) in Rochester, New York. I am testifying on behalf of ROI's Community Economic Development Division which is active throughout the upstate counties of New York. In addition to providing a wide range of human services in seven states and Puerto Rico, ROI is active in homebuyer counseling and first time homebuyer programs. This fall we celebrated the 3,000 first time home buyer who has gone through our first time home buyer program.

The serious state budget shortfall for next year has been caused in part by the collapse of the subprime mortgage market and the role that Wall Street has played in that collapse. This boom/bust cycle in the subprime market puts an exclamation point on the need for good law and regulation governing that market, but also for state budget priorities that recognize the damage done by that boom/bust cycle and work to ameliorate it.

The rise in foreclosures that we are now seeing doesn't just hurt state tax revenue, Wall Street and the families foreclosed on, but also the completely innocent families whose adjacent homes lose value because of the rise in foreclosures in their communities. It is imperative that the state undertake foreclosure prevention initiatives that focus on helping those working families that were lured into bad loans by high pressure mortgage brokers and have had their credit scores ruined in the process. The state must also support activities to help non-profit organizations gain control of these foreclosed on properties, rapidly rehab them and get them occupied by qualified first time home buyers who have received the kind of good counseling that will prevent them from falling into the same traps. Unless there is a coordinated effort with government support, most of the foreclosed on homes in low and moderate income neighborhoods will likely be bought by absentee investors and the neighborhoods will continue to decline.

So far the state's response through SONYMA's "Keep the Dream" product, with its emphasis on good credit scores and on-time payments prior to a mortgage rate adjustment, seems more designed to help well-heeled speculators who were using exotic mortgage products to buy more house than they could afford, rather than the true victims of predatory lending. We urge the Budget Division to make a priority of funding the state's ability to quickly investigate and prosecute mortgage fraud, then build the capacity of non-profit groups to provide sophisticated foreclosure prevention counseling throughout all parts of New York State. Along with foreclosure prevention counseling non-profit agencies must have access to a pool of money, similar to that available in Ohio, to make the victims of predatory lending whole by catching them up on their payments and refinancing them into a reasonably priced fixed rate mortgage that they can afford.

For many years housing specialists in New York have been calling for a dedicated source of funding for a state Housing Trust Fund. We support this effort, whether it is

accomplished with a real estate transfer tax, mortgage recording tax or even a new tax on subprime mortgage securities, we believe that developing a new source of funding dedicated to the many unmet housing needs is important. Unless non-profit groups are NeighborWorks' affiliates, in rural areas there are often few sources for funding pre and post-purchase home buyer counseling, or for funding local revolving loan funds to help subsidize low and moderate income borrowers having trouble with down payments and closing costs.

With the slowdown in the housing market, we hope the state will focus resources on getting foreclosed on properties rehabilitated and back into the hands of homebuyers who have been adequately counseled and trained. However, in many rural communities where there is a need for new affordable rental housing units, but in numbers too small to justify a Low Income Housing Tax Credit deal, there is often a real need for rental operating subsidies that is not currently being met for low and moderate income seniors.

Rural Opportunities also runs a significant economic development program which provides basic small business training and e-commerce training for beginning, micro and small businesses. In addition ROI's subsidiary Community Development Financial Institution (CDFI) called the Enterprise Center runs a small business loan fund with approximately \$8 million in available capital. With our experience running this loan fund we have learned a great deal about the limitations of access to credit for entrepreneurs, small and micro business owners of modest means in upstate New York.

Just as poorly regulated subprime lending created traps for unsophisticated home mortgage borrowers, there are also serious problems in the types of credit available to small business borrowers. In 2006 approximately 80% of the small business loans made in upstate New York were originated by the credit card companies according to the lenders' Community Reinvestment Act data. (This data is available from the Federal Financial Institutions Examination Council or FFIEC web page.)

In an all too typical start-up scenario someone who has been an employee for a number of years decides to develop their own small business. They put their own savings and assets into the business and because there are few banks that will make loans to a start-up business they apply for either a personal credit card or a small business credit card based on their own excellent credit score. Often these credit card "loans" are made at an initial low teaser rate, but as the owner continues to develop their business and they come under increasing financial pressure, they often either miss a payment, or begin to exhaust their credit card limits and then find their interest rates increasing dramatically, their credit scores dropping, with few existing options to refinance their business with SBA or bank money because those institutions are usually unwilling to refinance credit card debt.

The state's non-profit CDFIs are an attempt to fill some of that small business lending niche by providing small loans to start ups with more flexible terms than banks are able to do, and with more technical assistance to help borrowers avoid some of the traps. However, these CDFIs operate on very tight margins unless they are able to get government or grant funding to pay for operating costs.

Recognizing the positive role these CDFIs play, the New York State Legislature passed the state CDFI Fund bill last year and Governor Spitzer signed it into law. Having access to state CDFI funds will allow New York State CDFIs to leverage more Federal money to be used for additional flexible small business lending in our state. We believe that this money is a highly effective way to leverage additional small business growth in our state and based on the recommendation of the New York State CDFI Coalition we ask you to set aside at least \$5 million to fund the state CDFI fund in its first year of operations.

We urge you to emphasize these housing and economic development priorities as you review the draft budgets for 2008-2009 for DHCR and ESDC. The non-profit sector provides enormous value for the state in these areas and we hope you will recognize that value by providing adequate funding.

Thank you for your consideration of these thoughts.

Hubert VanTol  
Director for Economic Justice  
Rural Opportunities, Inc  
400 East Ave.  
Rochester, NY 14607  
585-340-3324 - work  
585-704-6478 – cell  
[hvantol@ruralinc.org](mailto:hvantol@ruralinc.org) -email