THE CITY OF NEW YORK
OFFICE OF THE COMPTROLLER
BRAD LANDER

Martin Gruenberg
Chair
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

Adrienne Harris
Superintendent
New York State Department of Financial Services
1 State Street
New York, NY 10004

March 30, 2023

Dear Chair Gruenberg and Superintendent Harris,

I write in regard to the recent closure of Signature Bank and the transfer of its deposits and assets to Signature Bridge Bank, N.A, and in particular to the importance of sound and sustainable disposition of its portfolio of multifamily building mortgages.

First, I want to thank you both for the swift and effective leadership that the Federal Deposit Insurance Corporation (FDIC) and New York State Department of Financial Services (DFS) showed in taking over Signature Bank, in order to help prevent a broader banking crisis.

As you are aware, Signature Bank held a large number of multifamily mortgages in portfolio. Signature's FDIC 2022 Community Reinvestment Act (CRA) performance evaluation indicated that nearly 25% of the bank's loan portfolio, just over $16 billion, is secured by multifamily buildings. Information provided to my office by the University Neighborhood Housing Project indicates that there are close to 3,000 buildings in New York City with Signature Bank mortgages, which represent nearly 80,000 homes. Many of the units are subject to rent-stabilization and likely provide stability to families who would otherwise struggle to find an affordable apartment.

New York Community Bank's decision to not acquire Signature's real estate portfolio in its purchase of the bank's deposits and loans suggests that these notes are understood by the industry to be problematic, as advocates have made clear for years. I was encouraged to see the news that the FDIC is limiting review of the banks' financials to bidders with existing bank charters.

I also request that you ensure that any purchaser of Signature Bank's multifamily assets be subject to the provisions of both the Federal and New York State Community Reinvestment Acts and be obligated to comply with the multifamily lending and servicing "best practices" that Signature Bank committed to in 2018 and that DFS recommends for multifamily lending.

In July 2018, following significant and long-term organizing by tenants and advocacy organizations, notably the Association for Neighborhood and Housing Development (ANHD), who were concerned about its prior problematic practices, Signature Bank publicly committed to a set of improved standards for its multifamily real estate lending practice. These standards include establishing minimum debt service coverage ratios, inspections of the building conditions prior to the loan closing, vetting of borrowers, use of realistic operating expenses in underwriting practices, and a commitment to respond to building or management issues.

Shortly thereafter, in September 2018, DFS issued a memorandum providing guidance on lending practices for rent-stabilized buildings. The memorandum made clear that to follow best practices set forth by DFS, lenders should conduct proper due diligence on owners, inspect the property, and review outstanding housing and building code violations.

Finally, it is important to note that many of Signature's multifamily loans were made prior to significant legislative changes to the State's rent-stabilization laws through the passage of the Housing Stability and Tenant Protection Act of 2019 (HSTPA). It has been our observation that, in some cases, multifamily loans of this type were predicated on plans for displacing rent-regulated tenants and raising rents much higher than the HSTPA allows. I ask that you make potential purchasers aware of the provisions of the HSTPA that owners are obligated to follow, in addition to the DFS guidance on lending on multifamily buildings.

Thank you again for your leadership and action to address the failure of Signature Bank, and for your ongoing work to ensure sound credit for our communities. We look forward to continued partnership on this matter and would be happy to discuss further at your convenience.

Sincerely,

Brad Lander
New York City Comptroller