The City Responds to the Foreclosure Crisis
by Michelle Chen
07 Mar 2008

As a flurry of foreclosure papers blasts New York from Wall Street to Myrtle Avenue, anxious homeowners are flocking to community organizations for relief. They're hoping for someone to walk them through the labyrinth of lenders, investors and loan agents propping up the sub-prime house of cards.

At the office of Neighborhood Housing Services of Jamaica, Queens, which counsels families on home financing, it's not unusual to see a client with an annual income of $30,000 suffocating under a $400,000 mortgage.

"When you do the math," said program coordinator Cerinelly Disla, "basically, the income is not there to support that mortgage plus all of the household expenses." Yet, she added, as shaky loans rupture throughout the neighborhood, there are "no programs out there to help these clients."

The city is trying to weave a new safety net for communities like Jamaica, where nearly half of home-purchase loans come from sub-prime lenders. The recently launched Center for New York City Neighborhoods ties together government, community groups, and the philanthropic and business communities in an effort to soften the mortgage market's hard landing.

The Center's Mission

As one of the first major citywide responses to the foreclosure crisis, the center is designed as a nonprofit hub for government, researchers and organizations to coordinate and improve services across different neighborhoods. A board representing community groups, the financial-services sector and foundations will direct the center's long-term work.

Although it will have a small central staff, the center primarily will be a broad network of service providers focused on mitigating foreclosures. The linchpin of the initiative is its $5.5 million budget, funded mainly through the City Council, the city Department of Housing Preservation and Development, and the Open Society Institute, with additional support from Freddie Mac, HSBC Bank and Citi Foundation.

Almost all the funds will go to organizations serving in hard-hit communities, which the center will select in the coming months. Grantees will administer programs ranging from legal advocacy to financial education.

The center plans to fund three dozen counseling and support staff to deliver advice to several thousand consumers annually. Additionally, it will provide the organizations with 22 new legal personnel to handle about 1,000 cases. The main goal is to help borrowers renegotiate loans or refinance troubled properties.

Sarah Ludwig, executive director of the Neighborhood Economic Development Advocacy Project, one of the groups that helped design the program, sees the center as a vehicle for both protecting neighborhoods and helping policymakers gauge the problem on a citywide level.

"The vision," she said, "is to provide comprehensive and high-quality foreclosure prevention services that are also linked to more systematic policy reform and innovation."

The Frontlines

Figures released on March 6 found that defaults on home mortgages hit an all-time high in the final months of 2007. Recent estimates revealed that about 14,000 foreclosures were filed in New York City in 2007, compared to fewer than 7,000 in 2005.

The crisis here has fallen along predictable demographic lines. An analysis of lending in the city by New York University's Furman Center for Real Estate and Urban Policy reveals that blacks were four times more likely as whites to have sub-prime home-purchase loans, and Latinos were three times more likely. Recent research on mortgage data shows that sub-prime borrowing has been concentrated in lower-income and predominantly non-white neighborhoods, like Fordham and Bedford-Stuyvesant.

While Albany and Washington mull policy measures to clean up the sub-prime mess, in the city's struggling neighborhoods, service organizations can barely meet the growing need for assistance, let alone approach the crisis on a structural level.

"There are certainly issues around reforming the law, but a critical issue is that there just aren't enough counselors or legal advocates available," said Furman Center research fellow Solomon Greene.

To remedy this, the Center for New York City Neighborhoods will reach out to counsel borrowers at every stage of crisis-whether they are just starting to fall behind on payments or verging on losing their homes.

Counselors will seek to fend off foreclosure by bridging the communication gap between borrowers and lenders. When it comes to readjusting mortgages, loan "servicers" -- the agents hired by lenders as the collector and go-between for borrowers - are notoriously bureaucratic and unresponsive. Ludwig said the challenge of just getting through to a servicer on the phone, even for seasoned advocates, "can be maddening."

Ideally, she said, a coordinated citywide response would enable advocacy groups to bring "incredible pressure to bear on mortgage servicers and on other entities within the industry to step up and address the crisis."

The center is designed to evolve over the long term, potentially adding more extensive measures to help people keep their homes. According to an outline issued by the mayor's office, the center's partner groups could connect distressed borrowers to new government-backed refinancing programs. Albany's recent expansion of the state's "Keep the Dream" program, meanwhile, may boost city property owners' access to special refinancing options. The program's recently broadened eligibility criteria will cover a wider range of credit ratings and multifamily properties.

Eventually, the center might work with the industry to develop a streamlined plan for modifying loans on a large scale.

To aid borrowers who cannot avoid foreclosure, counselors might help negotiate sales to minimize homeowners' losses, while also guarding against developer land grabs, by focusing on local buyers tied to the community.

A key goal is preventing bad loans in the first place. To preempt looming predatory lenders, programs run by community organizations will work to educate consumers about the mortgage process and their rights.

Philip Lentz, communications director for the State of New York Mortgage Agency, which assists distressed homeowners in the refinancing process, said "the real tragedy" of the sub-prime crisis is that many people duped into risky mortgages could have qualified for prime loans. "But unfortunately," he said, "too many people were taken in by mortgage brokers or other institutions that offered them low rates. And it sounded too good to be true, and it was."

Weak Foundations

Beyond aiding individual borrowers, community groups want policymakers to confront the roots of the problem: the combination of flimsy regulation and Wall Street greed that greased the engines of the sub-prime market.

Fair-lending advocates hope to give borrowers facing foreclosure stronger legal recourse against exploitative lenders, by revamping New York's anti-predatory lending law, which now covers only the costliest and riskiest sub-prime loans. Proposed legislation would establish responsible-lending principles for mortgages across the board, including standards for transparency, affordability and corporate accountability.

"You could do financial education and homebuyer workshops, which are great, but you're never going to reach everybody," said Gregory Jost, deputy director of University Neighborhood Housing Program, a northwest Bronx-based community development organization. "The fundamental problem is that that whole system of making mortgages without accountability doesn't work."

The Next Wave

While the foreclosure crisis has wrought disaster on thousands of individual homeowners, the ripple effects may soon engulf the entire city. As foreclosures consume neighborhoods, property-tax revenues evaporate, utility bills go unpaid, and buildings deteriorate under the neglect of debt-strapped owners. A study of 2005-2006 mortgages by the national advocacy group Center for Responsible Lending found that in Brooklyn alone, the roughly 4,000 homes lost to sub-prime foreclosures would affect more than 740,000 other neighboring properties, draining over $12.5 billion from home values and the tax base.

And since many of the city's foreclosures are multifamily properties, advocates warn that a second wave of hardship could affect renters: Distressed properties could be taken over by exploitative landlords, leaving tenants vulnerable to mismanagement or unfair evictions.

Renato Jordan, an advocate with the tenants' rights group Bushwick Housing Independence Project, predicted that, over next several months, "we're expecting more people to come in saying, 'I'm being pushed out because of this.'"

Some housing experts hope the foreclosure crisis will prompt deeper discussions on how to create more sustainable paths to homeownership.

Advocates point to development schemes that pool vacant land for community-led housing development to help ward off blight or gentrification. In Flint, Michigan, for instance, the state-sponsored Genesee County Land Bank redevelops foreclosed properties to preserve affordable housing and local ownership.

Though this "land trust" concept hasn't yet taken off in New York, community development organizations like the Fifth Avenue Committee in South Brooklyn and the Harlem-based Abyssinian Development Corporation have converted dilapidated housing units into affordable homes, building hundreds of rental and ownership opportunities for local residents.

Groups calling for industry reforms look to the federal Community Reinvestment Act, which mandates banks to offer special services in low and moderate-income neighborhoods. Expanding the law could give underserved communities greater access to mainstream banks and stable loans. Outside the mainstream banking system, community-based credit institutions could offer a homegrown model for building neighborhood equity and seeding homeownership.

"We need to not only develop financial institutions, particularly credit unions, that offer the types of products and services that these communities need, but to make underserved communities more aware of these institutions -- so that we can more effectively draw people away from the alternative financial sector, including predatory lenders," said Peter Bray, executive director of the New York City Financial Network Action Consortium, a nonprofit representing neighborhood credit unions.

Advocates hope the city's unified effort to deal with the broad impact of the sub-prime crisis will yield wide-ranging solutions, for both households and surrounding communities. "The center's focus should not just be keeping individual borrowers in their homes," Greene said, "but also looking at the question more broadly: 'How can we help stabilize neighborhoods?'"

Mark Winston Griffith, a the co-director of the Neigbhorhood Economic Development Project (NEDAP) and a fellow at the Drum Major Institute, has been in charge of the community development topic page *since its inception in 2003.*