

### Attorneys fight rising number of predatory loans

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Staff Writer

**O**ne loan salesman boasted that to close the deal on a high-cost home loan, he once got down on his knees and prayed with the family in their kitchen.

"And they signed on the dotted line," said East Palo Alto attorney Shirley Hochhausen, recalling the former salesman's account.

So-called predatory lenders use an arsenal of tactics, attorneys say, to collect excessive fees, penalties and interest — some \$9.1 billion a year by one estimate — and send many struggling homeowners spiraling into foreclosure. But in East Palo Alto, Hochhausen, a few law student volunteers and various public and private organizations have pooled their efforts to spread the word about predatory lending tactics and to assist victims, mostly senior citizens and minority and non-English-speaking families, with very few means.

"We have seen an explosion of predatory lending in places like East Palo Alto, where poor people live and the housing prices have risen dramatically," Hochhausen says. "They're sitting ducks."

Launched last summer, the Community Home Ownership Program's Anti-Predatory Lending Initiative in East Palo Alto is taking a full-service approach to victim assistance. Based at the East Palo Alto Community Alliance and Neighborhood Develop-



**Shirley Hochhausen** is helping victims of predatory lending.

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ment Organization (EPA CAN DO), the program offers legal and refinancing help, social services support, low-cost and deferred home repair loans, fair housing redress and credit counseling and education. In addition, Fannie Mae has committed \$5 million in guaranteed loans from Chase Manhattan Mortgage Corp., reportedly the first lender on the West Coast to be involved in such an initiative, for those found to be victims of predatory loans.

Sheila Burks, director of Fannie Mae's Bay Area Partnership Office, says the aim is to "replace the bad money with good." But she stresses that outreach and education, too, play a central role in the initiative and in all 18 other such Fannie Mae-backed initiatives nationwide. "The ultimate goal always is prevention," she said.

With a \$20,000 grant from the Fannie Mae Foundation, Hochhausen is training law students and pro bono attorneys to help undo some of the damage in what can be very complicated cases. The students research and evaluate the cases. Then, through Community Legal Services of East Palo Alto, pro bono attorneys step in to help negotiate better loan terms, pursue refinancing, assist victims in filing for bankruptcy or take more drastic legal measures, depending on the case. In just eight months, Hochhausen and five law student volunteers have assisted homeowners in 33 cases and are always, she says, looking for pro bono attorneys willing to help meet the need.

### Illegal or just a bad deal?

Distinguishing a loan that is simply a poor deal from one that is predatory and illegal can be difficult. Predatory lending nearly always involves "sub-prime" loans — those loans geared for the high-risk borrower who cannot qualify for a conventional loan at standard rates.

Not all sub-prime loans are abusive. Non-abusive sub-prime loans actually serve a purpose, many point out, in providing home financing to those who cannot get it elsewhere. However, if the broker or lender uses hard-sell, deceptive or fraudulent tactics to reel in the borrower or if the loan fails to meet state and federal requirements, it may be what is considered a predatory loan.

A predatory lender might hide the true cost of the loan — or lie about it. The loan might include unnecessary insurance or excessive financed fees that strip away the borrower's equity in the home. It might include a balloon payment that forces the desperate borrower to refinance at a greater cost to avoid losing his or her home. Or a stiff prepayment penalty might lock the borrower into a high-cost loan when he or she would actually qualify for lower rates. The loan might even be designed to fail, with a mortgage payment that far exceeds the borrower's means.

Such practices are warning signs that a predatory lender is at work. But such lenders are moving targets, Hochhausen says. "Every time we get on to one of their tactics," she says, "they shift to another one."

### Widespread egregious abuses

Hochhausen first encountered predatory lending complaints while working as counsel at the U.S. Department of Housing and Urban Development in San Francisco in the early 1990s. At the time, she saw relatively few cases but was troubled by how little was being done to address them.

"This is hard, messy work, but the abuses have become so egregious and so numerous that you can't ignore them anymore," Hochhausen says. "People who washed floors to be able to buy a house are losing their homes."

Take the case of Maria Sara Landa Gonzalez, a single mother who worked two jobs as a cleaning woman to buy her home in East Palo Alto. After six years, she needed to refinance the home to buy out her partner. A loan salesman negotiated the terms in Spanish, Hochhausen says, and then had Gonzalez sign the final documents in English. By the time the loan was