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In the face of foreclosures, legal services workers and housing counselors fight to keep homeowners such as Mary Vaughn of south Palo Alto from losing their homes.

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By Richard Rapaport  
Photography by John Lee

# Keeping Doors Open

Sitting quietly in the outer office of Community Legal Services in East Palo Alto (CLSEPA) on a warm March afternoon, Kathryn Latour's outer demeanor doesn't match her inner anger. Latour, an attorney who had retired to raise her family, is here at the behest of a friend, Mary Vaughn, an 86-year-old caught up in the foreclosure crisis making its malicious march across Silicon Valley.

"I get riled up just thinking about it," Latour says. In fact, Vaughn's case and others like it have infuriated Latour to the extent that she is here to volunteer her time and legal expertise to help CLSEPA clients.

Vaughn is one of many homeowners in the neighborhoods near East Palo Alto and south Palo Alto that are financially awash in the floodtide of subprime loans gone bad and the resulting defaults, foreclosures and evictions. An estimated one in three homes in East Palo Alto is in default. What has mobilized Latour is the distress of fellow Mormon church member Vaughn, a woman she describes as "giving, honest and good."

Vaughn and Latour are seeking help at CLSEPA, one of seven legal services and housing counseling organizations that received a total of \$500,000 in grants from Silicon Valley Community Foundation (see full list of grantees at [www.siliconvalleycf.org/ONE/31a](http://www.siliconvalleycf.org/ONE/31a)). These grants are designed to augment existing legal services, information and loan counseling to residents of Santa Clara or San Mateo counties facing foreclosure or eviction. The goal is to effectively double the number of trained counselors and lawyers dealing with foreclosures and their fallout.



Mary Vaughn  
at home in south  
Palo Alto.

→ Seeking solutions on the front line of foreclosure prevention

## One agency had to help clients in its parking lot — the number of folks looking for assistance was that large.

Vaughn and her late husband, Johnny, operated a window-washing business that was successful enough for them to buy a modest 2,000-square-foot, four-bedroom house in south Palo Alto in the early 1960s. When Vaughn's husband died in 1987, he left her with a home that they owned free and clear. Free and clear, that is, until a day in 2003 when two men in suits showed up at her front door. They were friendly and seemed to know a good deal about her: her religious activities, credit card and bank account histories. They were there, one of them told her, to offer a once-in-a-lifetime home-equity loan. The terms seemed too good to pass up. As Vaughn now knows, they were too good to be true.

Vaughn agreed she could use some new plumbing and, considering the escalation in regional home values since she and her husband had purchased the home, agreed to sign up for what she thought was a small home equity loan. In reality, through complicated terms that were unclear to her, Vaughn was inking an agreement for a hefty mortgage. Vaughn was content writing monthly interest-only checks for around \$2,000, unaware that the amount was not fixed and could balloon. In 2008, letters began arriving from a loan company she had never heard of stating that it now

owned the mortgage, and that she would owe a heart-stopping \$5,400 each month for interest and principal.

Shirley Hochhausen, managing attorney for anti-predatory lending at CLSEPA, took Vaughn's case. Legal aid workers such as her offer one avenue to help people in need; housing and mortgage counselors offer another. Additionally, local, state and national legislation will reshape policy and practices in coming months and years. The American Recovery and Reinvestment Act of 2009, for example, includes provisions for low-cost refinancing, loan modifications for people facing foreclosure and a call to maintain low interest rates.

In the meantime, dedicated workers at the front line of the foreclosure crisis seek solutions for the people who need help *right now*.

"We made the decision to support foreclosure prevention counseling and legal services because we saw a pressing need and wanted to address it," says Pat Krackov, the program officer responsible for the community foundation's economic security strategy. "We heard that agencies were swamped with clients facing foreclosure and needed additional manpower. One agency had to help clients in its parking lot on several occasions before moving to larger quarters—the number of folks looking for assistance was that large. We wanted to fund programs that could hit the ground running and make an immediate difference."

### Extensive Effects

Vaughn, an African-American, exemplifies the results of a November 2008 study by the Federal Reserve Bank of San Francisco confirming that African-Americans were 3.3 times more likely than whites to have mortgages in foreclosure. After fighting for years to prohibit banks from "redlining" minority neighborhoods out of mortgage loan eligibility, these same neighborhoods had become fertile targets for "reverse redlining" raids by predatory lenders.

This does not mean the housing crisis is totally the fault of lenders or solely



Kathryn Latour, right, helped friend Mary Vaughn find legal aid.

within the realm of minorities. Ginna Green, from the California office of the Center for Responsible Lending, describes how the macroeconomic scenario played out: "Poor regulation, astronomical housing prices and massive numbers of risky loans with difficult-to-understand features brought the housing market to the brink, and with it the general economy."

According to a report by research firm First American Core Logic, of the \$2.4 trillion in housing wealth lost in the United States last year, \$1.2 trillion was lost in California, with Silicon Valley responsible for a ballooning percentage of that loss. Much has been said about the culpability of lenders, but there is enough blame to go around, and borrowers need to get their own "financial houses" in order, too, Green says. "Borrowers should work with their lenders to make sure they are clear about payment and interest amounts, how long the original interest rate is going to last, and if or when their payment will balloon."

With her own loan ballooning, Mary Vaughn wasn't sure what to do with the loan company's letters until October 2008, when a foreclosure notice was posted at her house. "I was so embarrassed and humiliated," Vaughn says, explaining her initial lack of response.

"It simply defies reason," says Hochhausen, regarding banks and loan companies that often refuse to negotiate reduced monthly home payments rather than go through an expensive and emotionally punishing foreclosure. In CLSEPA's office, she listens for a moment as Latour lays out Vaughn's case, and then Hochhausen adds her own take on the broad effects of foreclosure. In addition to affecting individuals, she notes, "Foreclosures affect entire neighborhoods by lowering surrounding home values, decreasing neighborhood safety, shrinking the community property-tax base that pays for valuable community services such as schools and roads, and eliminating revenue streams for mortgage holders."

In what she sees as an out-of-whack financial system,

Hochhausen views the role of legal aid as helping clients wisely navigate a complicated legal system, which requires expertise. "If civilians go in by themselves," Hochhausen says, "they always get slaughtered."

Hochhausen is fiercely outspoken about the fate of the soon-to-be-dispossessed, and her résumé backs up her words. In 2001, the University of San Francisco law professor founded CLSEPA's Anti-Predatory Lending Initiative, a first-of-its-kind program. Since then, the number of legal aid lawyers, loan counselors funded and sanctioned by the U.S. Department of Housing and Urban Development (HUD), law students and volunteers dealing with predatory lending has grown. But it hasn't grown fast enough to deal with a crisis that, while slower to hit San Mateo and Santa Clara counties than some other California locales, is making up for that tardiness with a frightening spike in numbers. According to the *Index of Silicon Valley* (see "The Crisis in Numbers"), the number of home foreclosure sales in 2008 went up 184 percent, far higher than in the rest of the state.

"San Mateo and Santa Clara kept getting slighted," notes Martin Eichner, director of Project Sentinel's HUD housing

## The Crisis in Numbers

The following numbers from the *Index of Silicon Valley*, a research resource produced by Joint Venture: Silicon Valley Network and Silicon Valley Community Foundation, back up the heartbreaking personal stories of the foreclosure crisis:

- The number of home foreclosure sales in Silicon Valley went up 184 percent in 2008, far outpacing the 126 percent increase for California as a whole. The resulting correction in the housing market has led to dropping sale prices.
- In December 2008, foreclosed homes made up 41.2 percent of sales in Santa Clara County and 27.3 percent in San Mateo County.
- In 2008, Silicon Valley became the least affordable region in which to live in California, with only 29 percent of first-time homebuyers able to afford a median-priced home.



Boarded homes are abundant in an east San José neighborhood.

JOHN LEE/AURORA SELECT

# Asset-Building in Hard Times

When San José renter Jannie Lugo faced a sudden eviction because of foreclosure on her rental house, she made a smart decision. She sought expert help at Bay Area Legal Aid's Santa Clara County offices and got the eviction delayed. But even before she sought legal aid, Lugo had made other smart financial decisions.

Lugo has managed to put away enough savings so that when she finds a new home, she will have the assets available to pay first and last months' rent. She'll also be able to weather the storm of recession that has seen her hours as a medical assistant at Kaiser Permanente cut by one-third.

Building and keeping assets in difficult times is a skill that, once learned, can be useful throughout a lifetime and even beyond, through the ability to pass assets on to the next generation. Recognizing that asset-building can be a lifesaver, Silicon Valley Community Foundation awarded \$934,000 in grants to create or grow educational programs aimed at helping low-income residents make smarter financial decisions, develop new habits and begin to put aside savings (see more at [www.siliconvalleycf.org/ONE/31b](http://www.siliconvalleycf.org/ONE/31b)).

Financial "coaching" programs at organizations such as EARN and Project Read will help individuals and organizations better understand and apply the basics of finance, including practices as simple and effective as opening and maintaining savings accounts. Other programs include the Corporation for Enterprise Development's planned online marketplace, which will allow donors to match funds saved by residents in need.

Innovative ideas are crucial in difficult times, says Carolina Reid, a researcher for the Federal Reserve Bank of San Francisco. "To me, the important story is that the foreclosure crisis means that homeownership has, in many cases, become a lost opportunity to build assets and close the wealth gap," Reid says. "We now need to think of new ways to restructure asset-building and provide people with other opportunities to save."

counseling program, which provides one-on-one mortgage delinquency and default counseling. "They were not initially considered by government to be as much in crisis as the Central Valley." The successful tech sector masked early signs of trouble, but Eichner says there are growing pockets of distress in Silicon Valley, particularly along Highway 101.

Since 1994, Project Sentinel has taken the cases of homeowners in or near foreclosure. Counselors attempt to find common ground with lenders. Working in particular through the Obama administration's new Making Home Affordable program, one solution might be a loan modification, which changes monthly payments and timeframe. Another is a forbearance agreement, in which a lender agrees not to foreclose in exchange for an altered mortgage plan that will, over time, bring the homeowner up to date on payments. In drastic cases, bankruptcy may be appropriate.

## Language and Legal Barriers

Eichner's mortgage-default caseload was nearly negligible until 2007. Then, he says, a financial meltdown began "that was like a train hitting a car." Eighty-four cases in 2007 became 350 cases in 2008. For 2009, Eichner predicts his office will handle nearly a thousand mortgage-default cases. Project Sentinel is adding more staff to meet a demand that today forces a several-week wait for clients not in immediate foreclosure. One more statistic jumps out: Just short of 40 percent of Eichner's cases involve Spanish speakers.

Maeve Elise Brown, executive director of Housing and Economic Rights Advocates (HERA), says such cases reflect the work of Spanish-speaking loan agents working overtime to sell subprime loans in largely Hispanic neighborhoods in towns such as Santa Clara, San José, Redwood City, San Mateo, Daly City and South San Francisco. Brown, Hochhausen and others hear stories about brokers who exploited family, regional and even religious ties to sell subprime loans. These tactics allowed brokers and banks to collect billions in fees, interest and penalties while often leaving customers vulnerable and in the dark.

Brown, a longtime Bay Area housing advocate, co-founded HERA in 2005. Today, at the organization's Oakland headquarters, the phones never stop ringing, she says. In addition to offering free community workshops and other resources, HERA's staff handles litigation and drafts pleadings. The work requires



Maggie McCarthy, a housing counselor at Project Sentinel's Sunnyvale office, works with a couple to clear up their financial issues.

JOHN LEE/AURORA SELECT

a detailed, thorough search for hidden language and legal landmines, including buried clauses that force a client to give up the right to sue. "The loan documentation is so complex," Brown says, "we need specialist lawyers to spot the kinds of problems that loan counselors might miss."

Another problem comes from the disarray in the offices of mortgage companies and banks. "On one day, you get someone who promises to help, and on the next they have no indication you even called before," Brown says. Much of the grant money will go toward increasing the size of her staff to address what she sees as HERA's most important job: educating people on the other end of the phone, whether they're lenders or homeowners in need of counseling or legal aid.

## Collateral Damage

The most vulnerable people in the foreclosure process often don't even have their names on the deed. Renters have limited legal remedies when the sheriff comes knocking. Unlike homeowners, to whom the law typically gives at least 60 days in eviction cases, the process for renters "moves like a lightning bolt," says Julie Patiño. Patiño, managing attorney of the Santa Clara County office of Bay Area Legal Aid, seeks to limit the collateral damage experienced by the renters who make up one-third of her office's caseload.

Renters have little protection and recognition; a foreclosure notice might simply lump all renters in a

home or apartment under a "John Doe" alias. "These tenants are basically persona non grata," Patiño says.

When eviction is the order of the day, attorneys in Patiño's office scramble to work with the lender's lawyers to get them either to allow tenants to pay and stay, or give them a reasonable amount of time to move. "This strikes at the heart of what legal aid really is about," she says. "The best we can do is put our finger in the legal dam and plug the holes." However, she adds that the legal aid community is trying to shore up that dam by training real estate and lending professionals, educating tenants about rights and even targeting unscrupulous attorneys and lenders in lawsuits.

For now, the victories may be small, but they can be sweet. Take the case of Jannie Lugo, a medical assistant at Kaiser Permanente who didn't find out she was being evicted from her three-bedroom rental house in San José until a sheriff came to her door. Between having her hours cut at work and needing to find a new place to live, times were becoming increasingly stressful for Lugo and her 16-year-old son, Daniel. Finding Bay Area Legal Aid was a godsend, Lugo says.

"They did such a great job explaining the process to me, guiding me through what I needed to do," Lugo says, relief replacing anger in her voice. With expert help from attorney Nadia Aziz, she was able to win a 60-day reprieve on the eviction. "Otherwise, I don't know what we would have done." one