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Budget Cuts Imperil Aid in Foreclosure Cases

By [DAN BILEFSKY](#)

In the large immigrant community of Jamaica, Queens, which is ground zero of New York City's foreclosure crisis, a small squad of young lawyers fans out to local courts every day to do battle with lenders, negotiate hard-fought changes to onerous loans and provide free legal representation to low-income homeowners about to lose their homes.

Now, however, the anti-foreclosure team itself is facing foreclosure.

The state's budget squeeze has put at risk more than 120 legal aid and homeowner-counseling agencies across the state that have provided a last-ditch legal and economic lifeline to thousands of distressed homeowners.

"I am not sure I will have enough money to pay my staff by the end of this year," said Jennifer Ching, the project director of [Queens Legal Services](#), one of the groups whose future is threatened. "New York could soon find itself with thousands of unrepresented homeowners who risk falling through the cracks."

Foreclosure-prevention programs, which over the past three years have helped more than 3,000 homeowners facing foreclosure in New York City, have been financed since 2009 by federal stimulus spending, but that money will run out by the end of this year. That has left lawmakers scrambling to try to find new state financing, while the small army of pro bono lawyers fighting foreclosures waits and worries. Some have already stopped taking on new clients.

To bridge the three-month gap between the end of the calendar year and the start of New York's next fiscal year in April, Democrats in the State Assembly sought to add \$4 million in foreclosure-related spending to the state budget that took effect April 1, but they were unsuccessful. If the program is halted, even briefly, its supporters fear that it will be very difficult to get permanent financing for it in the future.

As a stopgap effort to come up with new money, Assemblyman Vito J. Lopez, a Democrat from Brooklyn, who is chairman of the Housing Committee in the Assembly, inserted a \$1.5 million earmark in the budget for the programs. But that failed, too: Gov. Andrew M. Cuomo, who banned new earmarks from the budget, vetoed the money.

"We were disappointed," said Mr. Lopez, whose borough has also been hit hard by foreclosures. "That veto almost makes it impossible for us to have a support system available for people that have such a need."

New York's foreclosure-prevention laws are among the most stringent in the country, requiring lenders to give a 90-day preforeclosure notice during which homeowners can seek help. But Ms. Ching said that the lack of new financing would undercut the law's effectiveness.

"It is incredibly disappointing that the governor, a former son of Queens and former housing secretary under President Clinton, can cut the last line of defense for people who are about to lose their homes," she said.

Cuomo administration officials say that pinning the blame on Mr. Cuomo is unfair, since the bulk of the financing for foreclosure prevention has come from the federal government, and the state reduced its spending this year for the first time in more than a decade, cutting areas like education and state operations.

But such arguments are cold comfort to distressed homeowners who are fighting to keep their homes and have turned to advocacy groups like Queens Legal Services as their last resort.

Luis Mendoza, a 64-year-old truck driver, was behind on the \$477,000 mortgage on his Queens home two years ago when there was a knock on his door at 5 a.m. As his wife and four children looked on, he said, he was served with court papers warning him that he faced foreclosure on his handsome four-bedroom home in Woodhaven.

Unable to afford the interest rate on his adjustable-rate subprime mortgage when it rose to 7.8 percent, he turned to Queens Legal Services. The group represented him at his settlement hearing with Deutsche Bank, which holds the loan in a trust, and helped him apply for a loan modification under an Obama administration program intended to provide a safety net to homeowners. After nine months of fraught negotiations, the bank said that changes to Mr. Mendoza's loan had been approved for a trial period. But the paperwork never arrived. Then, the bank rescinded its offer, according to Mr. Mendoza's lawyer.

So Queens Legal Services brought a successful action against the bank in State Supreme Court in Queens arguing that it had not negotiated in good faith. In October, American Home Mortgage Servicing, the agent servicing the loan for Deutsche Bank, offered Mr. Mendoza a trial loan modification at an interest rate of 2 percent for five years. The court also ordered that five months' worth of interest be waived due to Deutsche Bank's previous delays, helping him save \$13,000.

"I didn't know where I would go, with six people, if we got kicked out," said Mr. Mendoza, speaking through a translator provided by Queens Legal Services to help him navigate the process. "It was my dream to buy a house for my kids."

Scott Helfman, a Deutsche Bank spokesman, said loan servicers, not the bank, were responsible for foreclosure-related legal proceedings, including decisions on loan modifications.

The financial challenges facing foreclosure-prevention programs come amid a debate in Washington over the effectiveness of the Obama administration's \$30 billion Home Affordable Modification Program, which gives lenders incentives to make changes to borrowers' mortgages.

Critics say the program has failed to prevent many foreclosures and has left countless homeowners in New York frustrated and desperate because so few applicants get permanent loan modifications.

But Ms. Ching argued that the program, while flawed, had been at least partially successful in Queens, where 11,200 homeowners currently face foreclosure. The county has the second-highest foreclosure rate among counties in [New York State](#), after Suffolk, according to a study by the Empire Justice Center.

Legal advocacy, Ms. Ching said, is more imperative than ever now, as the loan modification process often drags on for months and the companies that service mortgages, typically large banks, continually lose homeowner paperwork or use delaying tactics.

She said that after the housing market collapsed, more than 90 percent of homeowners in Queens who faced foreclosure defaulted because they felt intimidated and did not appear in court. Since then, she said, her group has helped 600 low-income homeowners avoid losing their homes, and foreclosure defaults in Queens have fallen by 30 percent. In New York State, some 40,000 homeowners are fighting foreclosures.

In Queens, residents in middle-class enclaves like Jamaica and St. Albans complain that the values of their homes are dropping monthly due to foreclosures in their midst, while their once-tidy communities are becoming blighted by boarded-up houses with unmowed lawns.

Vicki Been, co-director of the Furman Center for Real Estate and Urban Policy at the New York University School of Law, warned that foreclosures had devastating social and economic consequences, causing house prices to plummet, promoting crime and forcing children to change schools.

“We are hardly at the end of the foreclosure tsunami,” she said. “There continue to be a lot of people losing their homes. The numbers have softened, but the crisis is not over.”