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Finding in Foreclosure a Beginning, Not an End

By **JOHN LELAND**

BOSTON — Jane Petion lived in her home for 15 years and saw its value rise slowly, rise rapidly and, when the housing bubble burst, plunge at a sickening pace that left her owing \$400,000 on a house worth closer to \$250,000. Last June, her lender foreclosed on the property. The family received notices of eviction and appeared in housing court.

Then they discovered a surprising paradox within the nation's housing crisis: Their power to negotiate began after foreclosure, rather than ending there.

In December Ms. Petion signed a new mortgage on her house for \$250,000, with monthly payments of less than half the previous level. She and her husband now have a mortgage they can afford in a neighborhood that benefits from the stability they provide. A nonprofit lender made the deal possible by buying the house from her original mortgage company and selling it to her for 25 percent more than its purchase price — a gain to hedge against future defaults.

"It was exactly what we needed to get back on our feet," said Ms. Petion, who works for a state agency. "We have income. But another bank, it would have been easy to look at our foreclosure and say, 'I'm sorry, we have nothing for you now.' "

This counterintuitive solution — intervening after foreclosure rather than before — is the brainchild of [Boston Community Capital](#), a nonprofit community development financial institution, and a housing advocacy group called [City Life/Vida Urbana](#), working with law students and professors at [Harvard Law School](#).

Though the program, which started last fall, is small so far, there is no reason it cannot be replicated around the country, especially in areas that have had huge spikes in housing

prices, said Patricia Hanratty of Boston Community Capital. "If what you've got is a real estate market that went nuts and a mortgage market that went nuts, what you've got is an opportunity."

Two years into the nation's housing meltdown, and after hundreds of billions of dollars of federal rescue programs, government officials and housing advocates denounce the unwillingness of lenders to adjust the balances on homes that are worth less than the mortgage owed on them.

Research suggests that such disparity, rather than exotic interest rates, is the main driver of foreclosures, in tandem with a job loss or another financial setback. The financial industry lobbied aggressively to defeat legislation that would empower bankruptcy judges to adjust mortgage balances to properties' market value.

That reluctance, however, eases after foreclosure, when lenders find themselves holding properties they need to unload, Ms. Hanratty said.

"We found, frankly, the industry wasn't ready to do much pre-foreclosure," she said. "But once it was either on the cusp of foreclosure or had been taken into the bank portfolio, banks really do not want to hold on to these properties because they don't know how to manage them, don't know what to do with them."

Working with borrowed money, Boston Community Capital [buys homes after foreclosure and sells or rents them to their previous owners](#), providing new mortgages and counseling to the owners, who typically have ruined credit. During the process the families remain in their homes. Since late fall it has completed or nearly completed deals on 50 homes, with an additional 20 in progress, Ms. Hanratty said. The organization is now trying to raise \$50 million to expand the program.

Steve Meacham, an organizer at City Life/Vida Urbana, is one reason banks may be willing to sell their foreclosed properties to Boston Community Capital. When families receive eviction notices, his group holds [demonstrations or blockades](#) outside the properties, calling on lenders to sell at market value. It also connects the residents with the [Harvard Legal Aid Bureau](#), whose students work to [pressure lenders to sell rather than evict](#) by prolonging eviction and "driving up litigation costs," said Dave Grossman, the clinic's director.

"So they're being defended legally, and we're ramping up the pressure publicity-wise," Mr. Meacham said. "And B.C.C. came in; they had a part that buys properties and a part that writes mortgages. It wouldn't work without all three."

A focus of the program has been the working-class neighborhood of Dorchester, where home prices dropped 40 percent between 2005 and 2007, compared with a 20 percent drop statewide, according to research by the Federal Reserve Bank of Boston. Foreclosures and delinquencies there are more than twice the state average, the bank found.

In such neighborhoods, lenders and residents are hurt by evictions, which often leave vacant properties that invite crime and drive down values of neighboring houses, Ms. Hanratty said. "So it's in the lenders' interest to get fair market value as quickly as possible, and in the interest of the community to have as little displacement as possible."

The program is not a solution for all lenders or distressed homeowners. After months of post-foreclosure negotiations with her bank, Ursula Humes, a transit police detective, is waiting for her final 48-hour eviction notice. Her belongings are in boxes.

Mrs. Humes owed \$440,000 on her home; her lender offered to sell it to Boston Community Capital for \$260,000. But after assessing Mrs. Hume's finances, the nonprofit asked for a lower selling price, and the lender refused.

On a recent evening, Mr. Grossman of the Harvard law clinic counseled Mrs. Humes on her options. "This is a case that doesn't have a happy ending," Mr. Grossman said.

Mrs. Humes said, "I depleted my retirement account and everything I owned, but I'm still going to lose it."

Many commercial lenders, similarly, would shy away from such a program because it involves writing mortgages for borrowers who have already defaulted once — a high risk for a small reward.

For other homeowners, though, the program is a rescue at the last possible second. Roberto Velasquez, a building contractor, lost his home to foreclosure last November, owing the lender \$550,000. After extensive wrangling, during which his family stayed in the house, he bought it again in March for \$280,000, a price he can afford.

On the night after he closed, he joined other members of City Life/Vida Urbana at a foreclosed four-unit building in Dorchester from which most of the tenants had been evicted. [A group of artists projected videos on sheets in the windows, showing silhouettes of families re-enacting their last 72 hours before eviction.](#) Garbage filled one of the units. Mr. Velasquez said it hurt to stand amid such loss, but he was jubilant at his own perseverance.

"We've been fighting for so long," he said, "and we win, because we're still in the house."

