

# DIALOGUE

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## Grantee Spotlight

### Legal Aid of Western Missouri Helps Communities Survive the Foreclosure Crisis

By Kelley Carpenter, Legal Aid of Western Missouri

As the foreclosure crisis swept across the country, stories of families losing their homes flooded the media. The subsequent impact these empty properties have on individual neighborhoods and the people left behind frequently remain hidden from the spotlight.

First one home, then two, then groups of empty homes grow like weeds, leaving once vibrant neighborhoods to wilt and decay, and driving property values down. Residents trying to hold onto their homes are often powerless as they watch their communities dissolve.

Foreclosures have emerged as a serious problem in the Kansas City metropolitan area over the last few years and have reached epidemic proportions in the urban core. According to property records, there were about 1,200 foreclosures in Jackson County in 2005. Three years later in 2008, foreclosures surpassed 2,600, with the greatest impact in low-income neighborhoods.

Leaders at Legal Aid of Western Missouri noticed the devastation in low-income neighborhoods and used Interest on Lawyers' Trust Accounts (IOLTA) funding to take several innovative approaches to address the growing problem. While maintaining its efforts to represent individual homeowners trying to save their homes, Legal Aid also decided to mobilize neighborhood groups, community leaders and mortgage lenders to address



Above are before and after pictures of a property that

Legal Aid of Western Missouri acquired under the

Abandoned Housing Act. The property has been

rehabilitated for owner occupancy by a not-for-profit

partner of the Neighborhood Stabilization Program.

the destruction caused by the empty, often abandoned homes left behind in the foreclosure crisis. This work has evolved into three effective IOLTA-funded initiatives.

### **Loan Servicers' Summit**

Three inner-city neighborhood associations turned to Legal Aid to combat the rising tide of vacant, foreclosed properties. Lenders purchasing foreclosed properties in 2007 and 2008 often failed to secure and maintain those properties inviting vandalism and other illegal activity.

The vandalism, which consistently included the removal of all copper piping for resale, often drove the cost of making the properties habitable higher than the total property value. These properties are then frequently abandoned and become blights on inner city neighborhoods.

In July 2008, in partnership with the City of Kansas City, Legal Aid threatened legal action against Deutsche Bank, the holder of more than 300 foreclosed properties in the city for failing to maintain its properties. In the same year, Legal Aid organized a loan servicers' summit for Deutsche Bank and other national and regional lenders holding foreclosed properties.

Deutsche Bank brought its top level lenders to the summit, where Legal Aid negotiated a new property protection protocol to secure and maintain foreclosed properties and a significant reduction in Deutsche Bank's area foreclosed property portfolio. Attendees, including representatives from the municipal government, set in motion the idea for a new city ordinance which requires loan servicer registration of foreclosed homes. As a result, foreclosed properties are being cleaned up, restored and renovated. Lenders who continue to foreclose on properties are now taking much better care of the properties of which they take possession.

"The way the lenders were letting properties deteriorate was an embarrassment," said Margaret J. May, Executive Director of the Ivanhoe Neighborhood Council in Kansas City. "Our neighborhood has taken giant steps forward in the last ten years and these lenders just neglected property after property after taking the foreclosure action. Legal Aid's work in getting Deutsche Bank and others to do the right thing and take good care of their properties has made a big difference. Because of Legal Aid, the foreclosed properties are finally being maintained."

David Park, Acting Director of the Neighborhood and Community Services Department agreed: "This has been an excellent partnership," he said. "Working with Legal Aid we have been able to keep hundreds of foreclosed properties from ever becoming problem properties. Everybody wins in this project. The lenders, by taking care of their property now are preserving their investments and the urban neighborhoods are being spared from blight. The project will make a big difference in the city's urban core for many years to come."

## **The Post Foreclosure Task Force**

As an individual family suffers the tragedy of a lost home during foreclosure, the surrounding community also suffers a loss to their property values, loss of community, and nuisances from vacant properties.

Legal Aid's Community Economic Development Unit managing attorney Michael Duffy holds a monthly meeting group for experts to share ideas on tackling the neighborhood problem. It includes elected officials, neighborhood activists, real estate professionals, counseling and community development agencies and federal regulators.

The Post Foreclosure Task Force has produced new city and state laws, improved municipal plans for neighborhood stabilization, and enhanced code enforcement and community outreach events to connect lenders with homeowners.

"Legal Aid brought the reality of this crisis to the community's attention," said Brent Schondelmeyer, Communications Director of the Local Investment Commission. "They harnessed the energy of a diverse group of community groups and elected officials to collaborate on solutions to the problems being faced by these neighborhoods."

"By bringing the key players to the table, Legal Aid not only focused a spotlight on a problem threatening to destabilize neighborhoods, but won commitments that offered a solution benefitting everyone," said Paul Wenske, Senior Community Affairs Officer for the Federal Reserve Bank of Kansas City. "It demonstrated an inclusive style of leadership."

## **Neighborhood Stabilization Program**

This spring, Kansas City received \$7.3 million for the Neighborhood Stabilization Program ("NSP"), as part of the federal stimulus package. The funding must be used to acquire and rehab properties within the next 18 months. The city's goal for the NSP funding is to acquire and rehabilitate 195 properties in areas of Kansas City that have experienced particularly high foreclosure rates and to sell the properties to owner occupants. The project is a race against the clock. If the the \$7.3 million is properly committed by October 2010, then money from the sales of the rehabilitated houses can be used to rehabilitate even more houses; it will become a revolving fund. Any money that is not committed by October 2010 must be returned to the federal government.

Legal Aid is playing a key role in facilitating this effort by matching the five non-profit Community Development Corporations chosen by the city to rehabilitate the properties with a coalition of five private law firms to handle the many complex legal issues involved. These firms are Bryan Cave LLP,

Husch Blackwell Sanders LLP, Polsinelli Shughart LLP, Sonnenschein Nath & Rosenthal LLP and Levy and Craig, PC. The work began by negotiating an agreement between the five not-for-profits and the city of Kansas City.

"With a good agreement in place, the redevelopers will be able to hit the ground running in their work renovating properties," said Allison Tanner, of Sonnenschein Nath & Rosenthal, LLP. "This is something the redevelopers, which are all small not-for-profits, just wouldn't have been able to do on their own. The law firms also bring our contacts in the real estate and finance community with us in this work. We have been able to put the redevelopers in contact with community-minded lenders who have inventories of foreclosed properties that they can make available cheaply, which will allow the redevelopers to get to work right away."

"I feel very good about this work," Tanner continued. "It has let me give something back to the community and will really help to stabilize some of city's most vulnerable neighborhoods."

Legal Aid estimates that approximately 20 attorneys will contribute at least 600 hours of volunteer work on the Neighborhood Stabilization Project; an in-kind donation valued at over \$120,000. Up to 50 of these properties will be renovated next year, thus improving the likelihood that stimulus funding will be spent effectively. The available volunteers are a tremendous resource and give Legal Aid the opportunity to leverage further funding.

"With legal assistance, NSP negotiations and property acquisitions will be much more effective," said Joanne Bussinger, director of Blue Hills Community Services, one of the five nonprofit community organizations the project matched with volunteer attorneys. "Having the attorneys manage the legal issues will allow us to focus on neighborhood priorities and rehabbing homes in foreclosure to provide quality, affordable homes for homeownership. With the assistance of all of our partners and the legal teams, we will leverage the \$7 million in federal funding for major community improvements."

These three initiatives are part of an innovative strategy to address the broader impact of the foreclosure crisis on low-income neighborhoods in Kansas City. "We are very grateful to the Missouri Lawyer Trust Foundation for providing the funding that allows us to do this work," said Gregg Lombardi, Legal Aid's Executive Director. "Because of the flexibility of IOLTA funding in Missouri, we were able to put funds to use immediately to solve emerging community problems. IOLTA funding is making a gigantic difference in community development in Kansas City."

*Kelley Carpenter is the Director of Development at Legal Aid of Western Missouri.*

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