

Fed's interest rate cut hurts Legal Aid

Cleveland nonprofit expects 80% dip in chunk of funds from interest-bearing escrow accounts

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The Federal Reserve's last rate cut was intended to stimulate the economy, but it's strangling Cleveland's Legal Aid Society.

State money that's used to fund the organization is just a fifth of what it was in 2007. The dropoff is the result of interest rates that have fallen to near zero as the Federal Reserve Dec. 16 set the federal funds rate — the rate at which banks lend to one another — to an unprecedented range of zero to 0.25%.

In Ohio and elsewhere, a large portion of the activity of Legal Aid societies is financed by Interest on Lawyers' Trust Accounts, or IOLTA. The money in these accounts consists of client funds held in trust by attorneys in interest-bearing escrow accounts; the interest is donated to statewide legal aid.

When interest rates were high, the accounts were a boon to the nonprofits that provide legal assistance to the poor. But now that the Fed has dropped its target rate, Legal Aid societies are struggling to meet their budgets.

In 2009, Cleveland's Legal Aid Society expects to receive just \$660,000 in IOLTA money to help cover a budget that totals \$8.5 million. In 2007, the society received \$3.38 million in IOLTA funds.

Statewide, the numbers are no better. The Ohio Legal Assistance Foundation expects to collect about \$6 million in 2009 in IOLTA money after taking in more than \$22 million in 2007.

"And that's pretty optimistic," foundation executive director Bob Clyde said. "We're trying to stem the tide."

Cleveland-area banks tend to provide more generous interest rates than do those in the rest of the state, Mr. Clyde said. He is trying to convince banks statewide to guarantee an interest rate of at least 1% on IOLTA money to keep the amount collected from those accounts from falling any farther.

The local Legal Aid Society has a six-month reserve fund that it will dip into to finance its programs amid a shortfall of more than \$1 million, Cleveland executive director Colleen Cotter said. She hopes rates go up or some solution is found before the fund is drained completely.

In the meantime, the society is reducing training and advertising to keep from cutting staff, as it anticipates that the volume of aid requests will increase as the economy remains troubled.

"We're at a difficult point, definitely," Ms. Cotter said. "When folks have less money, it's harder for them."

Already, the Legal Aid Society turns away at least half the people who qualify for services, or between 6,000 and 8,000 people a year, because it doesn't have the resources to handle them, Ms. Cotter said.

If the organization is able to weather the next two years by using reserves, it likely will be able to survive going forward, said Richard Panza, vice president of the board of trustees. But Mr. Panza said it was "impossible to say" if the nonprofit's resources could carry it through.

David Kutik, president of the board of the local Legal Aid Society, said the group is trying to leverage its resources by choosing cases that may have a broad impact.

He said Legal Aid is trying hard not to cut services further. It's difficult, Mr. Kutik said, because most of the organization's expenses are in its 95-person staff.

"It's not like we're spending lots of money on expensive coffee and trips," he said. "We don't want to lay attorneys off; we don't want to limit what attorneys can do."



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Refinance: Home value drop hurts some

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At Fifth Third Bank, total mortgage applications — which include both refinancings and new home applications — for December 2008 and January 2009 are up 60% from the like two-month period a year earlier. Over the last two months, home purchases have made up between 10% and 30% of that volume, said Marty Garrity, senior vice president and head of residential mortgage at the bank, leaving the rest to refinancing.

"Absolutely, volume is at record-level highs due to record-level lows at interest rates," Mr. Garrity said. "In my 20 years in business, I've never seen rates this low."

Last week, interest rates for 30-year fixed mortgages at a number of local banks were below 5%. Mr. Garrity said at Fifth Third, they ranged as low as 4.375%.

The savings, he said, could be considerable, especially with many adjustable-rate mortgages set to reset this year and rates preparing to balloon.

"All the stars aligned," Mr. Garrity said.

Refinancing to a lower interest rate frees up more cash for the consumer and can help jumpstart the economy by allowing homeowners to spend more of their paychecks on other goods, Mr. Garrity said.

No time like the present

Even some banks that have had little or no mortgage business in the past are starting to get into the game or bulk up their presence in it.

Liberty Bank chairman, president and CEO William Valerian said the Beachwood-based bank began doing mortgages Jan. 5 after deciding that they are one of the lynchpins to improving the economy.

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Dell Duncan, president and CEO of Ohio Commerce Bank in Beachwood, said his bank only has been doing mortgages for about three years but is seeing increased activity these days. He has closed about six refinances since the middle of December; normal volume in such a timeframe would be about half that, Mr. Duncan said.

Despite the low rates, though, some possible refinancers may still be waiting for rates to drop even lower. Bankers caution them against it.

"You'll never find a better deal," said Mark Fosnaught, senior vice president of retail banking for Park View Federal Savings. "Anyone who thinks they should do it, should do it."

Mr. Fosnaught said because rates are so volatile, there is no way to know how long it will be before they start to rise. With the demand to refinance so high, Park View chairman and CEO John "Jack" Male said, there is little downward pressure on the rates currently.

"We've been inundated with applications," Mr. Male said. "Mortgage brokers are out of business. We're that much busier."

Do the math

Mr. Garrity, at Fifth Third, also said industry consolidation has helped drive his business. That situation means many customers coming in to refinance their homes — about 60% — have no prior relationship with the bank.

However, not everyone who wants to refinance a house can do so.

Tom Finnegan, president and CEO of FirstMerit Mortgage Corp., said while he has seen applications for refinancings triple since the end of November, he's had to reject a number of those applications, too.

Because many homeowners bought their houses at the market peak, the worth of the homes they purchased has declined.

If the loans that people are seeking to refinance are worth more than a home's appraised value, any request to lower the interest rate will be rejected. More than half the refinance requests FirstMerit rejects, Mr. Finnegan said, are related to issues with the property value of a home.

Even as people read about the decline of value in the housing market, no one wants to believe that his or her own home has been affected, he said.

"It's our biggest challenge now," Mr. Finnegan said.

While refinancing can save a consumer hundreds of dollars a month — Mr. Finnegan likened it to a permanent tax break — he also stressed that FirstMerit and other banks are negotiating with homeowners and doing what they can to keep people in their houses who are unable to reduce monthly payments to a manageable level.

"We try to go through as many steps as we possibly can," he said. "We try to restructure the deal. We're not in the business of owning property."