

SACRAMENTO BUSINESS JOURNAL

JANUARY 20, 2012

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Newsmaker | Steven Felderstein

BOB SCHMIDT | CORRESPONDENT

Steven Felderstein is managing partner of a law firm specializing in bankruptcy and creditor debtor rights, insolvency and reorganization law. Business people come to his firm when their business is in deep financial trouble.

Is it depressing, dealing daily with people in distress?

"No, because they want to work their way out of the trouble they're in. A lot of these people have been successful. They're entrepreneurs who have been close to the edge before. Some expand too quickly, and they don't have the capital, and when there's a hiccup, they have a problem. When they end up in bankruptcy, it's because there's been a combination of factors to create a problem bigger than they can handle.

"Many of them are very creative people who want to survive and still have a viable business. Chapter 11 can help them do that. I like the idea that you can negotiate with a lender, and if that is successful you didn't have to file. That saves a lot of money.

"If the negotiating isn't successful and the person has to file and there's litigation, I like that, too."

Felderstein's Sacramento firm focuses on business clients, but he has some strong opinions about residential bankruptcies and foreclosures.

What do you think would end the foreclosure crisis?

When you're in bankruptcy court you see a lot of people who just have nowhere else to go. They filed bankruptcy hoping to be able to save their house. Unfortunately, the bankruptcy judges don't have the statutory authority to help them do that.

The bankruptcy code provides that a debtor can strip a secured debt down to the value of the collateral for loans on commercial buildings or second homes, but Congress has decided, after heavy lobbying by the banks, not to give judges that kind of authority for primary residence loans.

In my view, if judges had that authority, we'd be done with the foreclosure crisis, because then banks would know that they

had to reach agreement with debtors.

At the beginning of the Obama administration, one of the things it was talking about was changing the bankruptcy law to give judges the authority, but when the House changed and the Republicans took control, all that talk went away.

If bankruptcy judges were given that authority, how would it work?

Say a couple buys a house for \$100,000, and 15 years later it's worth \$250,000, and the person gets to borrow another \$100,000, say to build a swimming pool or to pay off other debts. They have maybe \$70,000 left on the first mortgage, so they owe a total of \$170,000.

The market changes and instead of their home being worth \$250,000 now it's worth \$125,000. Then the husband loses his job and they can't afford to make the payments on a \$170,000 loan, but maybe they could on a \$125,000 note, especially at today's interest rates.

Judges should be able to say the \$125,000 loan is secured by the home at its current value, but the \$45,000 difference is an unsecured loan and that could be greatly reduced in bankruptcy.

What brought you to California?

When I was growing up in Rochester — a good place to be from — I think I wanted to be a lawyer because I knew I didn't want to be a doctor or a dentist. My father had a carpet store. I could see that getting an education and becoming a professional was the way to live.

A friend in college had been accepted at Hastings, and he told me about it, and since I had always wanted to go to California, when I graduated I applied to Hastings and was accepted. When I finished law school my first job was clerking in Sacramento for Thomas MacBride, then chief judge of the U.S. District Court for the Eastern District of California.

I did that for a while, then went into private practice with a Sacramento law firm, and after a few years doing that I decided to go out on my own. One of the clients that went with me, who had a cabinet making business, needed to file a Chapter 11.

I took the case and found it very interesting, much to my surprise, and I've been focusing on commercial bankruptcy law ever since.

Who is he?

Managing partner, Felderstein, Fitzgerald, Willoughby and Pascuzzi law firm

THE ESSENTIALS

• **Age:** 65

• **Born and raised in** Rochester, N.Y., lives now in Carmichael with wife, Sandra, a retired manager for the California Public Employees' Retirement System. They have a daughter and one grandson.

• **Education:** B.A., history, University of Buffalo; J.D., Hastings College of Law

HIS FAVORITE THINGS

• **Book:** "A Man in Full" by Tom Wolfe

• **Movie:** "Wall Street"

• **Music:** Blues, classical piano

• **Hobbies:** Traveling, hiking, biking, reading, photography

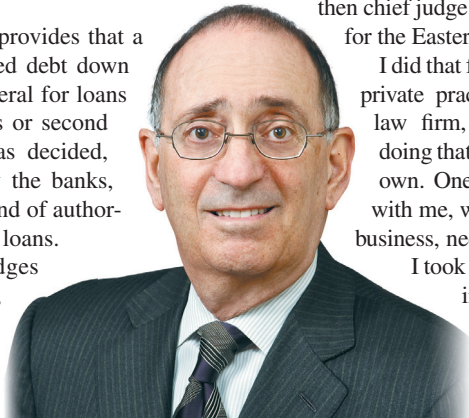
• **Hero:** My parents, who taught me by example to work hard and get a good education.

• **Pet peeve:** Professionals who rail against paying more income taxes that support things like public education when their success is based in large measure on the public education they received for free or nearly for free.

WHAT WOULD YOUR COLLEAGUES BE SURPRISED TO FIND OUT ABOUT YOU?

A lot of people are surprised to find out that my wife and I attended Woodstock — my first ever rock concert — the week before we got married. It was quite an experience. When the week was over, we went and got haircuts and got married. I think the highlight was all those very different young people being together, with no adult supervision, and they all got along with one another.

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