

# An easy home buy becomes risky

## Loans from IA

The price for the 1,002-square-foot house was \$105,000. For just \$500 earnest money, it would be hers.

Later, she learned her loan payment would be \$715 per month. That seemed affordable. She had an adjustable-rate loan that started at 9 percent, and she knew payments might go up. But she wasn't too concerned. The mortgage broker had mentioned refinancing in two years if the interest rate went too high.

At closing, there were stacks of papers. "They said 'Sign this, sign this, sign this.' And I did."

One paper Boone signed was a second mortgage, at \$150 a month. But she doesn't remember anyone explaining what it was.

She was excited. She had given notice at her apartment. Her belongings were packed.

"The plan was to live in this house for a long, long time," Boone says. "Some day, I figured I would leave it to my daughter."

## Shocks come in waves

The first surprise for Boone and several of her neighbors came soon after moving in: the annual homeowners association bill for \$75.

No one had discussed a homeowners association, they say. They couldn't see anything it provided - no streetlights, no playground, no pool, not even a sign at the subdivision's entrance. They went to an HOA meeting and complained. Some decided not to pay.

That's how they learned what a homeowners association can do - levy late fees and attorneys' fees, file liens and foreclosures. Some eventually paid more than \$1,500.

Bills for home insurance and taxes also appeared. Several homeowners had thought those were included in the mortgage payments.

Cassandra Boone also faced unexpected monthly payments for a second mortgage.

At least 75 percent of Hamilton Oaks home-buyers had easy-credit mortgage loans that are new to the market in the past 10 years.

Most took high-interest loans, designed for consumers with problem credit. A few got government-backed loans for lower-income people.

Both types are among the home loans most likely to foreclose in Mecklenburg County.

Boone and others say now they should have read and studied more before buying a home. But they also trusted real estate professionals who they say promised to work everything out for them.

## Losing game of catch-up

In January 2003, less than two years after the subdivision was built, the first bright yellow foreclosure sign went up in Hamilton Oaks. Two more followed that year.

Then the pace picked up.

By 2004, payments were climbing for most homeowners who had adjustable rate loans. Some struggled. They also heard disturbing rumors about property values.

Janice Keaton worked as a billing clerk for a large corporation when she bought her first home in Hamilton Oaks. She got a high-interest loan. Her first and second mortgages added up to at least \$200 a month more than she had hoped to pay.

She worried she couldn't afford that. Then she had to replace her old car. She juggled credit card bills and other payments. Keaton, then 53, decided to refinance to lower her mortgage payment. But she heard discouraging news from a neighbor who already tried.

"They told her it was going to be hard because this area was depreciating. It has a lot of foreclosed homes," Keaton says.

## 25% foreclosure rate

By early 2005, 14 homes - 25 percent of the Hamilton Oaks subdivision - had foreclosed. Those owners were gone. Sales of their houses were final.

At least two more owners had foreclosures pending. One was Cassandra Boone.

A health problem had forced her to quit her store cashier job in June 2004, she says. That fall, she was late with her mortgage payments.

She tried to catch up.

A year later, she got a new job as a home health care attendant,



T.ORTEGA GAINES - ogaines@charlotteobserver.com

Hamilton Oaks Drive in the Hamilton Oaks subdivision, where 25 percent of homes foreclosed in about two years. Home loan failures nationally averaged 3 percent.

## What builders, brokers are saying

■ **BUILDER:** Lewis Homes of Indian Trail. The company constructed 17 Hamilton Oaks houses. Nine foreclosed (53 percent). The houses were sold through real estate agents.

Company president Tom Lewis says he believes lower credit standards are a major factor contributing to the rising number of foreclosures. Even so, he points out that the majority of homeowners in Hamilton Oaks haven't foreclosed. Those owners "get into houses and enjoy the benefits of home ownership," Lewis says.

\*\*\*

■ **BUILDER:** Barber Builders of Charlotte. The company built 38 Hamilton Oaks homes. Five foreclosed (13 percent). They also were sold through real estate agents.

Freeman Barber Jr., company president at the time, says he's surprised and concerned about the high foreclosure rate in Hamilton Oaks. "Our intention is to give people the American dream. That's the basis of our business plan. This sounds like a terrible nightmare."

He says buyers' loan information isn't disclosed to his company, which didn't make the loans. But he would like to see changes that would prevent so many

### Hamilton Oaks Subdivision

**Built:** 2001.  
**Total homes:** 56.  
**Average original purchase price:** \$102,200.  
**Homes foreclosed:** 14.  
**Average resale price on foreclosed homes:** \$74,400.  
**Other recent sales since foreclosures:** 2.  
**Average resale price:** \$82,450.

foreclosures.

\*\*\*

■ **MORTGAGE BROKER:** Sharon Borst of First Carolina Funding Co. She says she arranged mortgage loans for a handful of Hamilton Oaks buyers, including Cassandra Boone.

Borst says she discusses all aspects of loans with her customers, including first and second mortgages. Borrowers sign disclosure statements that outline all loans as well as financing, interest rates and closing fees, she says. That information also is in the purchase contract the buyer signs.

"I'm thorough in my explanations to borrowers. I don't take it lightly," she

### About the Series

**Sunday:** An Observer investigation shows foreclosures have more than quadrupled in the past six years in Mecklenburg County. County records show more foreclosure filings in Mecklenburg, per capita, than any other county in the state.

It's not just the homeowner who suffers. Foreclosures can hurt resale values and in some cases make it hard to sell at all. Easy-credit loans designed for people with lower incomes and bad credit have increased home ownership, but pushed foreclosures to record highs.

**Today:** A neighborhood feels the pain of multiple foreclosures.

**Wednesday:** Some cities are doing more than Charlotte to combat home loan failures.

**Radio:** Hear Observer reporters Binyamin Appelbaum, Ted Mellnik and Lisa Hammersly Munn discuss the series at 9 a.m. Tuesday on "Charlotte Talks with Mike Collins" on WFAE-FM (90.7).

says. Borst agrees with experts who say most home buyers don't fully understand the process. "But I know my clients are told, numerous times."

"Lenders follow fair credit practices," Borst says, "and borrowers are qualified at the best available pricing based on their credit history."

\*\*\*

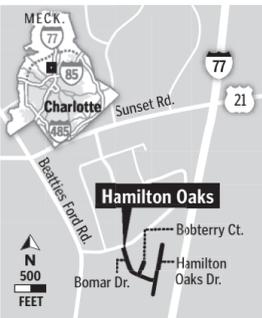
■ **CONSUMER PROTECTION LAWYER:** Andrea Beber of Charlotte who works with people facing foreclosure. She filed bankruptcy for four Hamilton Oaks homeowners.

Bebber sees a pattern in starter-home subdivisions like Hamilton Oaks: First-time buyers sign up for big loans with lit-

tle down payment. They strain to pay their mortgages. If they have adjustable loans, their payments rise. Then a financial setback hits. Lenders add late fees and other penalties. Houses foreclose. Property values drop.

"Let me protect my clients from any mistaken impression that their foreclosures or bankruptcies indicate that they are at fault or that they are somehow irresponsible," says Beber. "These hard-working families bought their homes believing that they would increase in value. Instead, the values have plummeted - not because of anything my clients did or did not do."

— LISA HAMMERSLY MUNN



STAFF MAP

but she was too far behind. The lender had moved to foreclose.

One option might have been for Boone to sell her house and use the money to pay off her loan.

But she didn't want to sell. And she believed she couldn't get enough money to pay off her loan. Similar houses had sold in foreclosure for \$30,000 less than she paid.

Last spring, one of Boone's neighbors called Charlotte consumer protection lawyer Andrea Beber.

Bebber defends against foreclosures and attacks what she believes are predatory mortgage loans. She reviewed Boone's paperwork.

"This is a really ugly loan," Beber thought. She thought it carried too many fees and expenses. And it offered an adjustable interest rate at a time when interest was low. Rates and payments could only go up, she thought.

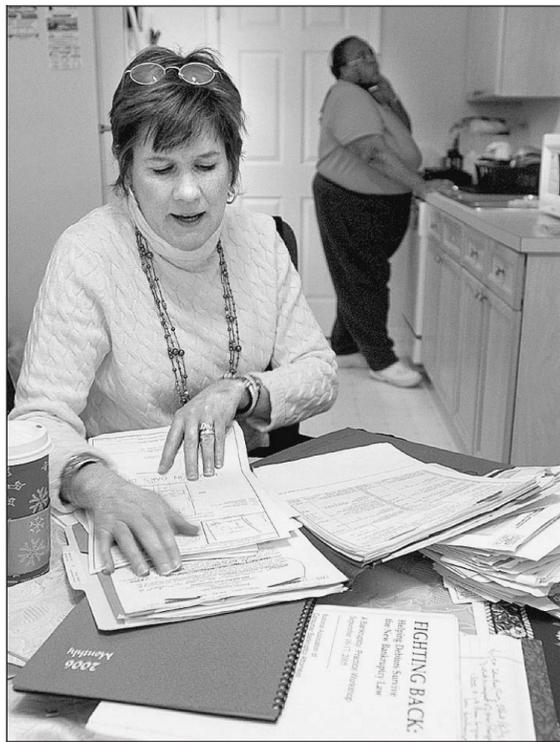
The lawyer started negotiations with Boone's lender last summer to work out a payment plan. Talks broke down before a foreclosure hearing scheduled for Nov. 18.

That day, a hearing officer ordered the house sold and set the date.

### 'Going twice ... sold'

On Dec. 9, in the entrance of the Mecklenburg Civil Court Building, a company called Default Real Estate Specialized Services showed up to sell Boone's house and three others.

An agent stood behind the curved podium and spread out a thick sheaf of papers. She read aloud from a "Notice of Foreclo-



T.ORTEGA GAINES - ogaines@charlotteobserver.com

Consumer protection lawyer Andrea Beber works to help Cassandra Boone keep her home.

sure Sale." She identified the house, owner and terms.

No one showed up to outbid Boone's lender. That's typical unless a house has a particularly attractive location or substantial equity.

As usually happens, the lender bought the house for the debt amount, plus court fees and costs. That added up to \$107,426.69.

"Going once, going twice ... sold," the agent said.

It took less than four minutes from start to end.

### Bankruptcy a risk, too

Under N.C. law, Boone had 10 days after the sale to save her home. She could pay off her loan. Or she could file for bankruptcy. Otherwise, sheriff's deputies would come to remove her from the premises.

On Dec. 16, lawyer Beber filed a Chapter 13 bankruptcy petition in Boone's behalf. That halted foreclosure for at least a

few weeks.

A Chapter 13 bankruptcy hurts homeowners' credit for a few years but allows them to keep their homes. Experts estimate at least 15 percent of foreclosures in the Charlotte area are stopped because the homeowner files for bankruptcy.

Even so, the outcome for Cassandra Boone is uncertain.

"It was always a dream of mine to own a house," Boone says. "If I do lose it, I won't be the first."

Her best hope is for a bankruptcy judge to confirm her plan. She would pay back house and car debts, and at least some of what she owes to other creditors.

Worst scenario is the judge rejects the plan. Or Boone can't pay back her creditors as promised.

The house would go to auction again.

The foreclosure rate in Hamilton Oaks would climb.

Lisa Hammersly Munn: (704) 358-5886

## Foreclosures in neighborhood take a toll on everyone

Woman's 2 problems: Property worth less, and refinancing gets difficult

BY LISA HAMMERSLY MUNN  
lmunn@charlotteobserver.com

Helen Gilmore didn't worry much about houses foreclosing around her in the Hamilton Oaks neighborhood.

She felt sympathy for the owners. But she didn't think the foreclosures would affect her.

She bought her new, \$109,000 house in 2001. It seemed affordable and she liked the floor plan.

Gilmore, who works for a lending company, had asked for a fixed-interest loan. But she says she was told she qualified for an adjustable one that started at 9 percent. Monthly payments would be \$744 and would likely rise.

She didn't worry much about that, either. After all, she remembers the mortgage broker saying she could refinance after a couple of years.

It wasn't always easy, but Gilmore made her house payments.

Her furniture fit the house beautifully. She ringed her grass and shrubbery with neat stone borders.

In 2003, her mortgage payment climbed. Gilmore decided it was time to refinance. Eventually, at least eight lenders and brokers told her she was in trouble, she says.

They told her the same story homeowners in other high-foreclosure neighborhoods told the Observer:

"They said property values had dropped because of the foreclosures," Gilmore says.

She was told her house didn't have enough value to cover the loan.

### If You Fall Behind on Payments

Contact the company that services your loan. Foreclosures cost them money. The company may be willing to adjust payment schedules to help you. You can also contact a third-party counseling agency, which may be able to work with the company on your behalf. In Charlotte, United Family Services offers counseling at (704) 332-9034. Outside Charlotte, find a local agency by calling the Department of Housing and Urban Development at (800) 569-4287. Or contact a national nonprofit, the Home Ownership Preservation Foundation, at (888) 995-HOPE (888-995-4673). — BINYAMIN APPELBAUM

By late last year, Gilmore's primary mortgage payment topped \$1,100 a month and was set to climb again.

"I am desperate," she told a visitor.

In late December, Gilmore finally refinanced through her current lender.

"It was divine intervention," she says in relief.

Gilmore didn't get the fixed-rate loan she wanted. But her new high-interest loan would stay at 10 percent for three years. It also paid off her second mortgage. Together, that cut her payments almost \$300 per month.

There is a downside. At age 55, she's starting over with a new, 30-year mortgage. And payments may climb again in a few years.

Gilmore says she'd do things differently if she could: "I'd get a fixed-rate loan. I'd make sure my credit was good enough."