

Council to address city's growing foreclosure rate

Homes from 1A

UFS cut its counseling staff as a result from eight people to three, said the director, Henrietta Thompson. She said it now gets about 50 calls each day, but can counsel only about 50 people each week.

"When I went to a conference in Gastonia, they were shocked," Thompson said. "They said, 'Oh, my gosh! We have three (counselors) in Gastonia and you're in Charlotte.'"

Reduced lending standards, which expanded eligibility for loans, have fueled a foreclosure explosion since the late 1990s.

Owners lost their homes and damaged their credit. Property values declined across entire neighborhoods. Hardest hit in Charlotte were subdivisions of starter homes, priced for first-time buyers at \$150,000 or less.

Charlotte started funding the UFS counseling program in 1998. The nonprofit works with lenders to reschedule overdue debt payments so borrowers can keep their homes. The program was successful, but after a few years of increasing funding, the city started cutting back.

Last year, there were 2,805 foreclosures in Mecklenburg County, up four times from 1998. About 80 percent of county foreclosures are inside Charlotte's city limits, an Observer analysis shows.

City officials acknowledged funding to prevent those foreclosures was not sufficient.

"We have experienced budget cuts over the last three years," said Richard Woodcock, the city's deputy director of neighborhood development. "That's been the reason that these amounts really aren't probably enough."

The counseling program faces other obstacles, including:

- The agency says it gets no financial support from lenders, even though they make more money each time UFS helps a borrower avoid foreclosure.
- There is no budget for advertising, forcing UFS to rely largely on referrals from lenders. Homeowners in trouble may never learn help exists.
- And the process relies on the willingness of lenders to negotiate. Some lenders can be much quicker to move toward foreclosure, the counselors say.

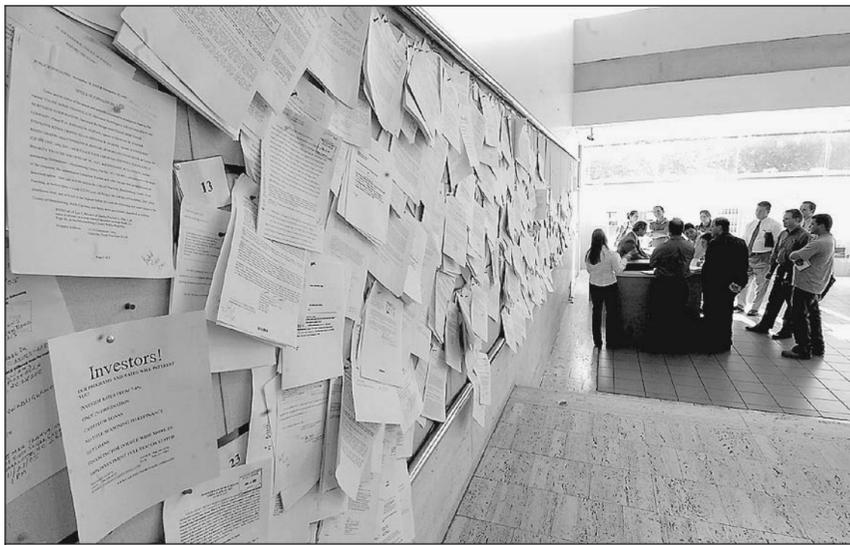
Chicago plan gets results

An innovative answer to these challenges is reducing the number of foreclosures in Chicago — and the idea is starting to spread to other cities.

The Chicago city government and several large lenders have combined to provide millions in funding for nonprofit counseling programs. Even more important, the city advertises its general help number, 311, as the contact point for the counseling service.

Following the launch of the program in 2004, Chicago's foreclosure rate fell 10 percent.

It began with an unlikely meeting in 2003. A Chicago nonprofit that had worked for decades to help families buy homes noticed a change: Buying homes was get-



A foreclosed house is auctioned in the Mecklenburg Civil Court Building. The bulletin board is covered with upcoming sale notices. On average, 11 houses are auctioned in Mecklenburg each business day.

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Charlotte's Banks

Bank of America Corp. and Wachovia Corp. both make relatively few easy-credit loans, and their borrowers default relatively rarely. But as two of the nation's largest mortgage lenders, that still means they're dealing with a fair number of customers in trouble.

Both companies say their goal is to keep customers in their homes, and the best thing people can do is to call as soon as they realize they're having problems.

"The earlier that connection is made, the more flexibility there is to work with them and work something out," said Julie Davis, a spokeswoman for Bank of America.

In an effort to reach customers earlier, Wachovia now mails an information package with possible options to customers who show signs of falling behind on payments.

Both banks also contribute to national nonprofits that provide borrower education and counseling.

ting easier, but residents of lower-income neighborhoods were struggling to keep the homes they bought.

Bruce Gotschall, president of Neighborhood Housing Services of Chicago, asked the companies that collected mortgage payments to attend a meeting with the city and community groups. It would take place on safe ground: the Federal Reserve Bank of Chicago.

Both sides came wary. The companies were braced for a lecture. The nonprofits were tempted.

"We were taking a risk to work with some of these lenders," Gotschall recalled. His group and many other consumer groups had long viewed these companies as the cause of the problem, quick to make loans they knew people would struggle to pay,

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)

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and quick to foreclose when they did.

But the sides found a problem they both could work on.

Many borrowers wouldn't answer the phone when their lenders called. A 2005 study by Fannie Mae, which buys mortgages as investments, found almost a third of foreclosed borrowers never contacted their lender after they began missing mortgage payments.

"We needed other ways to get people in the system to help them realize that there was some possibility of saving home ownership," Gotschall recalled.

The answer was 311.

In January 2004, Mayor Richard Daley launched "Every Minute Counts," urging people to call 311 if they fell behind on mortgage payments. The city put ads on 200 elevated trains and mailed fliers to homes in neighborhoods with high foreclosure rates.

In the last two years, the program has received about 3,000 requests for assistance. It has saved at least 790 homeowners from imminent foreclosure.

A matter of prioritizing

Charlotte also has a 311 general-help system. There is a Federal Reserve branch downtown. And the city has a mounting foreclosure problem.

Could a similar partnership take root in Charlotte? So far, national groups have focused on areas with even higher foreclosure rates such as Chicago, Cleveland and Dallas, and local government and nonprofits have not made the issue a priority.

Charlotte council members said the issue was now on the table, but money remains tight.

"Finding the funds is the challenge," said council member Nancy Carter. "I would advise people to step up and make their issues known to us as we go through the budget process."

Tawana McCullough believes the need is clear.

In 2004, the Charlotte resident received an invitation to the auction of her own home.

A sheriff's deputy had posted a foreclosure notice on the door a few weeks earlier. Her bags were packed. Prospective bidders came knocking, asking if they could look inside.

She was spared because UFS negotiated an agreement with her lender. Her monthly payment would increase by \$60, but she avoided foreclosure.

"There needs to be assistance for people who are trying to keep their home," she said. "That's the reason why my dream of being a homeowner is still alive." — STAFF WRITER LISA HAMMERSLEY MUNN CONTRIBUTED

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FROM LENDERS, BUILDERS, DEFAULTERS AND MORE

Experts tell how to cut foreclosures

Education about home ownership, changes in rules, standards crucial

The Observer interviewed lenders and builders, borrowers and defaulters, community advocates and academics, and government officials. In addition to counseling for homeowners who have fallen behind on their mortgage payments, here are their top recommendations for reducing foreclosures:

1. Teach home ownership

Problem: Many people lack basic financial literacy. They don't understand their loans. They don't know how to manage ownership of a home.

Solution: Nearly everyone agrees lenders, governments and nonprofits should increase spending on education: basic financial education in public high

schools; counseling on how to buy a home; counseling on how to own a home. Studies show education halves the chances of default. People are prepared to seek a better loan and less likely to make bad choices.

2. Regulate down payment assistance

Problem: A growing number of borrowers make down payments on FHA loans using gifts from nonprofits, which are then reimbursed by the seller. Such loans default far more often.

Solution: The government should increase other requirements for borrowers who plan to use such gifts, according to a 2005 report from the Government Accountability Office. The report also called for closer scrutiny of the practice, which is frequently associated with inflated appraisals.

3. Raise standards in risky neighborhoods

Problem: Neighborhoods are

damaged when easy-credit loans foreclose in clusters.

Solution: Lenders should consider the number of easy-credit loans in a neighborhood, imposing higher standards on new applicants as numbers rise. Said William Apgar, a former FHA director: "It ought to say that everything else being equal, you're less likely to endorse another loan ... because (each foreclosure) undermines the loan across the street."

4. Name the broker and the appraiser on public mortgage records

Problem: Mortgage records only include the name of the lender. They don't mention whether an independent broker arranged the loan, nor do they identify the appraiser who valued the home.

Solution: Change public documentation requirements to include the name of any mortgage broker, and of the property appraiser. That would make it pos-

sible to correlate loan failures with all the key participants in the process, allowing regulators and the public to identify the source of problems.

5. Keep better records of foreclosures

Problem: Record-keeping is inconsistent. North Carolina tracks foreclosure filings but doesn't have reliable records on completed foreclosures. South Carolina didn't start keeping statewide records until late 2004. None of that data includes addresses of foreclosures, making it difficult to track the impact on neighborhoods.

Solution: Keep better records. The state of North Carolina should know how many residents lost their homes to foreclosure last year, and where they lived. So should local governments. Recording that information is a prerequisite to addressing the problem.

— BINYAMIN APPELBAUM, LISA HAMMERSLEY MUNN

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