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Beazer Homes USA built 155 homes in the Stewarts Crossing development in Mecklenburg County between 1999 and 2001. Fifty-two of those homes have foreclosed. Remaining residents worried as property values declined and renters moved in.

Details of foreclosures flying under the radar

Mortgages from 1A

The Department of Housing and Urban Development, which administers the FHA program, was unable at first to say how many loans it insured on streets in Southern Chase. It was unable to say which ones had foreclosed. And it didn't know all the failed loans were in one neighborhood.

The lack of information about the location of foreclosures makes it harder to regulate the lending industry. Buyers share responsibility for the loans they accept, and foreclosures sometimes result from the loss of a job or an unexpected expense. But regulators say that concentrations of foreclosures often indicate misconduct by someone else, such as a broker who arranged a number of loans or an appraiser who valued the homes.

None of the government agencies contacted by the Observer said it plans to start tracking foreclosures.

Federal authorities

About 8,700 homes have foreclosed in Mecklenburg County over the past four years. The county's foreclosure rate is the highest in the state.

An Observer study found almost 30 percent of the foreclosures in 2003 and 2004 were associated with loans insured by the federal government.

The FHA encourages lending to lower-income families by promising to repay the lender if the borrower does not. The money comes from premiums paid by borrowers, not from taxpayers.

In the mid-1990s, the FHA started insuring riskier loans. Borrowers were no longer required to make a down payment. Lenders could arrange larger loans simply by projecting that a borrower's income was likely to increase.

The share of Americans who own homes rose to almost 69 percent last year from 65 percent in 1996. The FHA was responsible for a share of the increase. So were subprime lenders, which make loans with high interest rates to the same people traditionally served by the FHA.

But now the number of foreclosures also is pushing into record territory, driven by defaults on FHA and subprime loans, according to estimates made by the lending industry.

"The mortgage industry has said they have increased home ownership," HUD's inspector general, Kenneth Donohue, told a U.S. House committee last week. "However, at what cost to the American people?"

The FHA has tightened some of its standards in response to the problems.

In 2004, it stopped allowing lenders to increase the size of a loan by projecting a borrower's income would increase.

Beazer arranged such loans for 147 buyers in Southern Chase. More than a quarter ended in foreclosure, often because the borrower's income did not increase.

But the FHA continues to allow buyers to purchase homes

How to Get Help

If you're a homeowner behind on mortgage payments or facing foreclosure, here are some places to call for information or help:

- Contact the company that services your loan as soon as possible. They may be willing to adjust your payments.
- You can also contact a counseling agency, which can work with the lender on your behalf. In Charlotte, United Family Services offers counseling at 704-332-9034. Outside Charlotte, you can find a local agency by calling the U.S. Department of Housing and Urban Development at 800-569-4287 or online at www.hud.gov/offices/hsg/sfh/hcc/hccprof14.cfm.
- You can also call a national nonprofit, the Home Ownership Preservation Foundation, at 888-995-4673.

If you believe your home purchase may involve illegal or unethical work by real estate professionals, contact:

- N.C. Appraisal Board:** 919-870-4854 or www.ncappraisalboard.org.
- N.C. Banking Commission** (which licenses loan officers and mortgage brokers): 919-733-3016 or www.nccob.com.
- N.C. Real Estate Commission:** 919-875-3700 or www.ncrec.state.nc.us.
- The N.C. Attorney General Consumer Protection Division:** 877-566-7226 or www.ncdoj.com/consumerprotection/cp_about.jsp
- The FBI:** 704-377-9200 in North Carolina.

Proposed Legislation

Efforts to curb foreclosures:

- N.C. House Bill 817, residential mortgage fraud.**
Designed to make it easier for authorities to prosecute real estate professionals for mortgage fraud in state courts. Makes mortgage fraud a felony.
- N.C. House Bill 313, making public the name of the loan originator.**
Requires deeds of trust, which are public records that set out loan terms for home sales, to carry the name of the mortgage broker or loan originator. N.C. Commissioner of Banks Joseph Smith is promoting the bill to help his office regulate the state's mortgage loan originators.

with no money down. It requires a 3 percent down payment, but it allows sellers to provide the money to the buyer indirectly. Federal studies show the price of the home is often increased to cover the expense. That leaves buyers with no equity.

Government reports have criticized the practice because borrowers foreclose more often if they don't own a stake in the home. In Southern Chase, Beazer provided down payments for 135 borrowers. More than a quarter have foreclosed.

State authorities

The newspaper found that Beazer, which arranged loans for most buyers in Southern Chase, in some cases arranged larger loans than buyers could afford. Facts were misstated on an appraisal obtained by the Observer.

North Carolina's regulatory boards license mortgage brokers and lenders, appraisers and other real estate professionals. They can revoke licenses and refer cases to law enforcement.

But regulators lack basic information about who is involved in the lending process. The name of the lender appears in public records, but not the name of the appraiser, or the broker that arranged a loan.

The N.C. Appraisal Board usually investigates only after receiving a complaint. That means it often relies on homeowners to figure out that the price of their home may have been inflated — and which state agency to call.

The N.C. Commissioner of Banks is prioritizing examinations of mortgage brokers whose loans result in a large number of foreclosures, deputy commissioner Pearce said. But Pearce said the agency continues to rely mostly on complaints from the public to know which brokers deserve scrutiny.

After the Observer first reported last year on Mecklenburg County's spiking foreclosure rate, state legislators filed a bill to include appraisers and mortgage brokers in the public record. It died in committee.

Some legislators haven't believed foreclosures are a problem, says Rep. Becky Carney, D-Mecklenburg, a vice chair of the House committee created to study foreclosures after the Observer's stories last year.

There's more attention on the issue now, Carney says, because of the problems in the subprime lending industry.

Some legislators, she says, "are as surprised now as some of us were last year."

Local authorities

New subdivisions require approval from city and county government, as do the land-use plans that determine where subdivisions can be built.

About 24,000 starter homes with tax values below \$150,000 were built in Mecklenburg County between 1997 and 2005, according to property records. That's about 40 percent of all new homes in the county during

that period.

The starter-home developments were concentrated in a crescent that stretches from southwest of downtown, through northern Charlotte, to the eastern county limits.

Because the starter-home developments sit close together, that is now the crescent in which Mecklenburg's foreclosures increasingly are concentrated, too.

City officials want to provide affordable housing to lower-income residents, says Richard Woodcock, Charlotte's deputy director of neighborhood development.

"But we don't want the foreclosures," he says.

The starter home developments share a style: Small lots holding small vinyl-sided houses set on concrete slabs. Some have no sidewalks. Common spaces are uncommon.

City and county boards can require builders to make their subdivisions more desirable, by providing sidewalks, open space and varied home facades.

The city of Concord upgraded its subdivision standards in 2000, partially in response to problems in Southern Chase, said City Manager Brian Hiatt. Charlotte also has adopted rules requiring sidewalks and other amenities.

Finally, local governments can provide help to homeowners facing foreclosure.

Chicago cut foreclosures by 10 percent after it started arranging counseling for owners who called the city.

The Charlotte City Council rejected a request last year for increased funding from the non-profit that provides foreclosure prevention counseling to city residents. The issue is expected to come up again this year.

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WHAT IS A FORECLOSURE?

When a homeowner falls behind on mortgage payments, the lender can ask a court to seize the home and sell it to cover the debt.

Lenders asked courts in North Carolina to foreclose a record 45,500 homes last year, more than double the number in 2000.

Roughly half these filings end with an actual foreclosure. The remaining owners repay the loan by selling or refinancing, filing for bankruptcy, or striking a deal with the lender.

WHAT IT MEANS TO YOU

Foreclosed owners lose their home, their neighborhood, their investment. Borrowing money becomes very hard and very expensive.

Some homes sit empty. Others become rentals. Communities are destabilized. Neighboring homes lose value. Crime sometimes rises.

Local governments lose property tax revenues. They also pay to process the foreclosure and for public safety issues associated with vacant buildings. Their average cost runs into thousands of dollars, according to a 2005 study by Harvard University researchers.

CONTACT US

Lost your home? Struggling to hold on? Live in a neighborhood plagued by foreclosures? We'd like to hear your story. E-mail bappelbaum@charlotteobserver.com or call 704-358-5170.

Read the Series on the Web at Charlotte.com

SUNDAY

The Observer charted the problems of the foreclosure-plagued Southern Chase development in Cabarrus County.

Beazer Homes USA aggressively sold starter homes to low-income buyers in ways that made a high rate of foreclosures inevitable, an Observer investigation found. It arranged larger loans than some buyers could afford. That allowed it to include the cost of financial incentives in the price of homes.

The strategy was a financial success for the Atlanta-based home builder. But the neighborhood fell apart. Seventy-seven buyers have lost homes to foreclosure in a subdivision of 406 homes. That's about one in five, more than six times the national rate.

MONDAY

The paper told how the number of foreclosures in Mecklenburg County has spiked to record levels since 2003, almost entirely because of foreclosures in starter-home subdivisions. The Observer identified at least 35 starter-home developments in the county where 20 percent or more of the homes have foreclosed.

TUESDAY

The Observer reported that in the past decade, Beazer Homes built more houses in Mecklenburg County that have since foreclosed than any other builder. The foreclosures are concentrated in 10 developments, each of which has a foreclosure rate of 20 percent or higher. Nationwide, less than 3 percent of buyers lose homes to foreclosure.

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