

Foreclosures happen at the crossroads of two problems: A mortgage that can't be paid and a home that can't be sold.

Here's how it often happened in Southern Chase ...

NO MONEY DOWN: WHY IT LEAVES BUYERS VULNERABLE

THE RULE: The FHA requires the borrower to make a 3 percent down payment. This shows the borrower has savings. It also gives them a stake in the house.

Sidestepping the rule: Many borrowers in Southern Chase had minimal savings. So Beazer gave the funds to specialized nonprofits, which gave the money to the buyer. The FHA allowed the practice, though it undermined the purpose of the rule.

How buyers got hurt: Beazer incorporated the cost of the down payment into the price of the home, according to a Beazer sales document obtained by the Observer and a former Beazer employee. That left buyers with no equity.

Postscript: Beazer passed money to more than 50 buyers through the OWN Program and its parent company, Affordable Housing Concepts. In 2003, the FHA barred Affordable Housing from giving money to buyers.

A 2005 federal report found builders routinely raise prices when they provide down payments.

In 2006, the IRS said it was reviewing the non-profit status of companies that pass money to buyers.

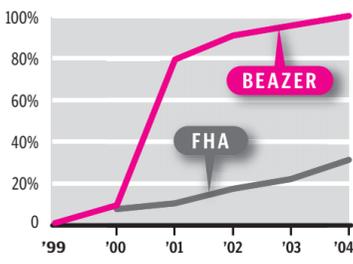
The FHA continues to allow the practice. Beazer continues to provide down payments for buyers in the Charlotte area.

Beazer said: "Down payment assistance has been used by many builders marketing to first-time buyers. These programs were all approved by the Federal Housing Administration and subject to FHA guidelines. The program was not unique to Beazer and provided future homeowners an opportunity to save money." — BINYAMIN APPELBAUM



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From 2001 through the end of sales in 2004, Beazer provided down payments for 85 percent of its 155 FHA borrowers. Less than 20 percent of FHA borrowers nationwide got this type of down payment help.



A BUYER'S STORY Aaron Mahatha (above) and his wife, Karen, bought a home for \$125,000 in December 2001. It was their first home. The couple could not afford the required down payment of \$3,750.

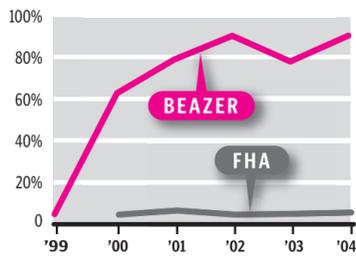
Documents show Beazer gave the \$3,750 to The OWN Program, a Florida nonprofit. It paid OWN \$300 to pass the money to the Mahathas. The Mahathas signed a statement saying it didn't come from Beazer.

The tax value of the Mahathas' home on Trestle Court has since dropped from \$125,000 to \$110,000. "We're just paying rent," Aaron Mahatha said.

They would like to sell, in part because they can't afford the payments. But they owe more than they could get, and they still have only minimal savings.

LOW INTRODUCTORY PAYMENTS: HIGHER PAYMENTS LATER

From 2001 through the end of sales in 2004, Beazer helped with mortgage payments for 83 percent of its 155 FHA borrowers. That compares to roughly 6 percent of FHA borrowers nationwide.



THE RULE: In general, the FHA allows borrowers to spend 41 percent of pre-tax income on debts including a mortgage. A person's maximum monthly payment determines how much they can borrow.

Sidestepping the rule: Beazer qualified buyers for larger loans by paying part of their monthly bill during the first and second years of the loan. The deal, called a buydown, allowed Beazer to calculate the maximum loan based on the combination of its payment and the borrower's payment.

How buyers got hurt: The FHA allowed buydowns only if the lender documented the borrower likely could afford the increased payments. For example, a couple moving to a new city for the wife's new job could get a larger loan before the husband found a job. But borrowers in Southern Chase often struggled. By the third year, some were spending more than 50 percent of their income on debts.

Postscript: The FHA closed the loophole in 2004. Lenders can no longer increase the size of an FHA loan by helping with the borrower's payments. Beazer's use of buydowns in the Charlotte area dropped from 82 percent of loans in 2004 to 6 percent by 2006.

A 2006 government audit of some Beazer loans in the Charlotte area included a 2004 loan from Southern Chase. The government said Beazer failed to document the bor-

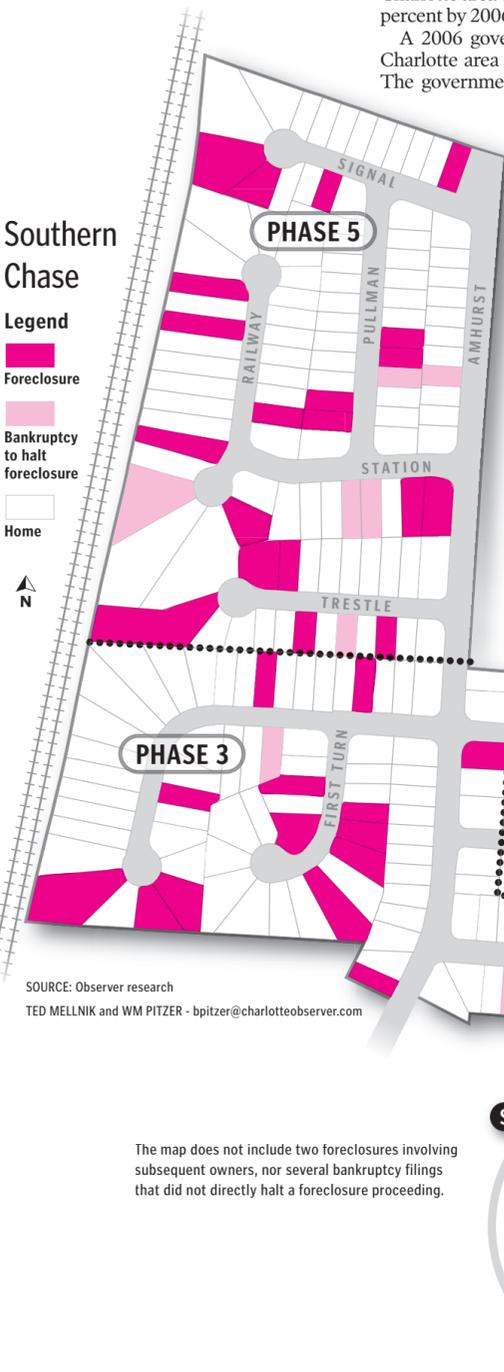
A BUYER'S STORY Marian, who asked that her last name not be printed, made \$2,885 a month before taxes in 2003 and paid \$515 on debts, documents show. That limited her monthly mortgage payment to \$673, and her maximum loan to \$97,000. That wasn't enough to buy the house she wanted. So Beazer chipped in.

Marian paid \$632 a month during the first year of her loan. Beazer paid \$139. The combination allowed her to buy a home for \$115,000 in July 2003.

Marian's income did not grow during the two years Beazer helped with the mortgage. By the third year, her monthly payment reached \$864. Debts consumed 48 percent of her income, far more than the FHA intended. She is struggling to make payments and to keep her home.

rower could afford the payments in the third year. Buydowns remain a common feature of subprime loans, and are advertised by several local builders.

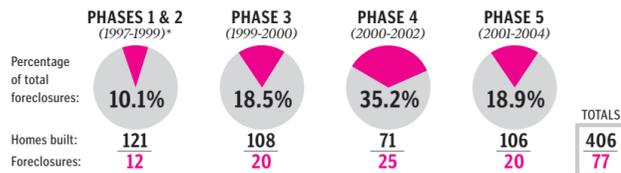
Beazer said: Buydowns "provide people, who otherwise may not qualify, the opportunity to purchase a home. Beazer Homes may have, on aggregate, offered more buydowns ... as we were focused on serving the first-time buyer." — BINYAMIN APPELBAUM



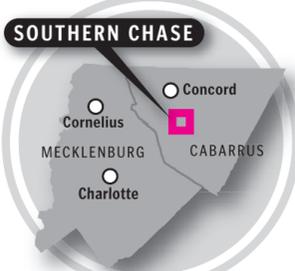
THE DAMAGE: LATER PHASES SUFFERED MOST

Of the 406 original buyers in Southern Chase, 77 lost homes to foreclosure and at least an additional 12 filed for bankruptcy protection to stave off foreclosure. The problems were concentrated in the third, fourth and fifth phases, where Beazer arranged most of the loans and charged higher prices for the homes.

Foreclosures by Phase Nineteen percent of the original buyers in Southern Chase have lost their homes to foreclosures. That's likely to increase. Lenders have filed to foreclose several additional properties.



Online Extras
Click on an interactive map showing the status of the homes in Southern Chase at WWW.CHARLOTTE.COM



The map does not include two foreclosures involving subsequent owners, nor several bankruptcy filings that did not directly halt a foreclosure proceeding.

THE RESPONSE

Beazer says it followed the law

It says lenders give final loan OK, foreclosures linked to the economy

In a written statement, Beazer Homes USA acknowledged the foreclosure rate in Southern Chase is relatively high.

The company, based in Atlanta, said some foreclosures were normal in a starter-home neighborhood, and some foreclosures resulted from economic difficulties experienced by buyers. It said some residents were employed in the textile and tobacco industries, which cut workers in recent years.

Beazer, which ranks among the nation's 10 largest home builders, said its practices in Southern Chase were in line with industry standards, including arranging loans for most buyers and offering financial incentives.



ATLANTA JOURNAL-CONSTITUTION PHOTO

Beazer Homes USA Chief Executive Ian McCarthy leads a company that made \$389 million last year.

The company in 1996 created a subsidiary, Beazer Mortgage, to act as a mortgage broker for buyers in its subdivisions.

The statement emphasized that Beazer does not make final approval decisions about the loans it arranges. Those decisions are made by the company that provides the money. In Southern Chase, two-thirds of the loans arranged by Beazer were approved and funded by National City Corp. of Ohio.

Beazer said its mortgage subsidiary complied with the law and that its operations were carefully monitored. It also said customers were informed of loan terms, and they signed documents indicating understanding and acceptance of features such as an interest-rate buydown or down payment gift.

Beazer's chief executive, Ian McCarthy, declined to speak with the Observer. McCarthy took the company public in 1994 and remains in charge. His focus on starter homes has been lucrative. The company made \$389 million last year. Its stock price has increased fivefold over the last decade. In 2005, Beazer cracked the Fortune 500.

The company entered the Charlotte market in 1987 with the purchase of Squires Homes. Beazer ranked among the largest builders in the Charlotte area over the last decade. The company is currently building in 14 local subdivisions. It plans a development near Bank of America Stadium, where the Coffee Cup restaurant stands. — BINYAMIN APPELBAUM AND LISA HAMMERSLY MUNN

THE SERIES CONTINUES

Monday: The number of foreclosures in Mecklenburg County has spiked to record levels since 2003, almost entirely because of foreclosures in starter-home subdivisions. ■ With tips for first-time buyers.

How We Did This Series

The Observer examined Cabarrus County property deed and sale records, building permits, records from state court and federal bankruptcy court, and Federal Housing Administration data on FHA loans in the Charlotte region. Reporters interviewed more than 50 present and former neighborhood residents. Some provided financial records related to their home purchase. Reporters also interviewed government officials, housing industry experts, consumer advocates and participants in the housing industry.