

THE IMPULSE BUY THE VERRIERS

'\$1 down' was an ominous sign

Jason Verrier and his then-wife had a plan for buying their first house.

They bought a mobile home. They would live there for a few years and save money for a down payment.

Then, driving past the entrance to Southern Chase, she saw a sign: "\$1 down gets you in."

In February 2002, the Verriers bought a one-story home there for \$106,000. They paid \$1 of their own money. Beazer provided the down payment and paid the closing costs.

The "dollar down" sign appeared in late 2001 or early 2002, residents recall. No one is exactly sure. Beazer declined to comment.

Studies show a lack of savings is the main reason lower-income families can't buy homes. Beazer removed that final obstacle. Buyers made a \$500 deposit and got a check for \$499 at closing. "It was like an impulse purchase," said Lisa

Hernandez, another buyer in Southern Chase. "You come down here and they're like, 'You need to pay \$1.' I said, 'Great, we'll take it.'"

But homes bought easy were sometimes hard to keep. Loan payments rose. Property values fell.

"A lot of people could afford \$1," Jason Verrier said, "but they couldn't afford the home."

Verrier was luckier than most. He makes good money as an electrician. While 84 percent of buyers got their loans through Beazer Mortgage in the later years of sales, he borrowed from Bank of America.

He rues the state of the neighborhood. He is angry that his home is falling apart. He wants to move but can't sell for enough to make the down payment on a better home.

"I can't complain too much," he said. "I was stupid enough to buy here." — BINYAMIN APPELBAUM



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Jason Verrier lives on Rockingham Lane, a street with 19 foreclosures. "I'm just trying to keep my home from having one of those colored (foreclosure) notes" posted on the door, he said.

COVER STORY

Fast fall of a subdivision

Beazer from 13A

clear when the number changed.

FHA rules required Beazer to document the borrower's income and debts. Lea's credit report and W-2 show the accurate numbers.

Knowingly falsifying information on a loan application is a federal crime.

Lea says she didn't notice the change until the Observer pointed it out this fall.

The company did not respond to The Observer's written questions about the loan.

The changes allowed Lea to qualify for the loan she needed.

But in the summer of 2001, three months after buying the home, Lea called the dealership and asked to have the Avenger repossessed. She could not afford the car and the mortgage.

Buydown balloon inflates

The Tingleys' monthly mortgage payments started low because Beazer had agreed to pay part of the bill for two years. The company arranged similar deals, called interest-rate buydowns, for 146 other buyers in Southern Chase.

Under FHA rules at that time, paying part of the loan allowed Beazer to arrange larger loans than buyers could otherwise get. But Beazer had to document that buyers likely would have enough money to make the full payment by the third year. The Tingleys say they were never asked.

Other buydown recipients in Southern Chase included a clerk in an accounting office, a nursing home assistant and a trash collector. There was little chance their income would increase sufficiently. They also say they were never asked.

In June 2002, the Tingleys' monthly mortgage payment climbed from \$675 to \$744. Their income did not keep pace. Mark had quit work to care for the couple's daughter. They were unable to pay the full amount.

One year later, the monthly payment went up again, to \$856, and the Tingleys fell further behind.

The bank that made the loan, National City, let them keep the home — but only if they made larger payments to catch up.

They sold their furniture and replaced it with furniture from Goodwill. They sold gold coins given to Lea by her father. They ate Oodles of Noodles and lots of peanut butter.

They held on. Many of their neighbors did not.

2004 was the first year in which many buyers were making a full mortgage payment without Beazer's help.

The overwhelmed owners might have sold their homes to pay their debts. But prices in the neighborhood had dropped.

Too many homes were for sale. Foreclosed homes were available for 80 cents on the dollar. There were newer subdivisions nearby.

Many remaining residents owed more than they could sell their homes for, and they lacked

Fewer Problems in Earlier Phases

Southern Chase was built in five phases.

The earlier phases have fared better. Prices started lower and most loans were arranged by companies other than Beazer.

The county says sales prices in the subdivision increased in recent months. Most of the sales were in the early phases.

The later phases, mostly built after 2001, have suffered the most problems. The Tingleys live in the fourth phase.

At least six foreclosures are pending against homes in the fifth, most recent, phase. (See map, facing page.)

the savings to pay the difference.

Martin and Jill Higginbotham tried to sell their home for two years after Martin took a job in Tennessee. Finally, Martin mailed in the keys and called the lender.

"Do what you have to do," he remembers saying.

The lender foreclosed in early 2004. Twenty-nine other owners lost their homes that year.

Mark Tingley took a part-time job. An auction house paid him to tend three foreclosed homes once occupied by his neighbors.

Can't afford to stay or go

The Tingleys had a plan when they moved to Southern Chase. They would sell after five years and move to a larger home.

By last fall, their daughter was 5, their son was 3 and the 1,410-square-foot house felt small. But the Tingleys owed more than \$115,000 on a house valued for tax purposes at less than \$108,000.

They talked with real estate agents, who quoted even lower prices.

The Tingleys were struggling to pay their mortgage. The monthly bill had climbed to \$1,091, including catch-up payments. They didn't have the savings to sell the home at a loss.

"We can't afford it, we can't sell it and we're hurting ourselves just trying to keep it," Lea said.

Her credit has become so bad she said she can't open a bank account.

She and Mark worry they will lose the home the next time they fall behind on the mortgage payments.

They worry the home is falling apart: There is mold in the carpet where it meets the walls. Vinyl siding is cracking and popping. Wooden trim is rotting.

They could walk away and accept foreclosure.

But they say they're not ready.

They worry most of all that this will be the last home they ever own.

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THE CONSTRUCTION

House had code violations



CHRISTOPHER A. RECORD — OBSERVER PHOTO

Mark Tingley points out rot on the outside of his home in Southern Chase. A building inspector hired by the Observer found mold in the carpets and moisture along the inside walls of the Tingleys' home.

Cabarrus inspector: Approval by department was a mistake

Lea and Mark Tingley's house never should have been issued a certificate of occupancy, the chief building inspector for Cabarrus County told the Observer.

The house had code violations that were missed when the certificate was issued in 2001, said Scott McAnulty. He said the department lacks the resources to inspect every new home at all the necessary moments in the construction process.

The wooden walls of the Tingley home start too close to the ground, McAnulty said. The same problem can be seen in other homes in the neighborhood, he said.

Robert Boucek, a building inspector hired by the Observer, said poor landscaping allows water to pool outside many of the homes. That's not a building code issue, but the combination means the wood soaks up the water. The result is rot and mold, Boucek said.

Boucek found mold in the carpets and moisture along the inside walls of the Tingley home.

Boucek also noted vinyl siding nailed on too tightly; shingles that overhang the roofline, making cracks and leaks more likely; and untreated wood used on the outside of homes.

The effect, Boucek said, is a young neighborhood that "looks like it's already 40 years old."

In a written response, Beazer defended its products.

"Beazer adheres to stringent building standards and follows strict processes, reviewing construction activity on a constant basis," Beazer wrote. "Each home undergoes a series of quality inspections and is reviewed and approved by government building officials."

The company said it had not received "a significant number of warranty issue-related calls from homeowners in the Southern Chase community."

— BINYAMIN APPELBAUM AND LISA HAMMERSLY MUNN

THE PRICES

Homes with Beazer loans cost more

Prices approved by appraisers didn't hold up over time

BY BINYAMIN APPELBAUM
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People who bought a home in Southern Chase with an FHA loan arranged by Beazer Mortgage paid higher prices on average than other buyers in the subdivision.

The contrast was sharpest with the prices of 28 homes bought with loans insured by the Veterans Administration. The price of homes bought with Beazer FHA loans averaged 6 percent higher per square foot than the VA homes, adjusting for the year of sale.

The prices have not held up.

In 2006, Cabarrus County assigned a lower tax value than the original sales price to two-thirds of the 229 homes purchased with Beazer FHA loans.

The county assigned lower values to only a quarter of the 177 homes purchased with other kinds of loans.

Appraisers validated the higher prices.

Lenders rely on appraisers to confirm a property is worth at least as much as the mortgage loan. That protects the borrower and the lender: If the borrower can't pay, the home can be resold to pay the debt.

Intentionally overstating the value of a home on an appraisal is illegal.

When Beazer arranged an FHA loan, it hired the appraiser. But for VA loans, the appraiser is assigned by the government. That helps to ensure the lender doesn't influence the appraiser's opinion.

A Davidson appraiser, Elizabeth Smith, said she worked regularly for Beazer. She said she appraised 15 homes in the neighborhood in 2003, but she was not sure how many homes she appraised in earlier years. Beazer arranged 16 FHA loans

in Southern Chase in 2003, records show.

Appraisal documents are not public records, but the Observer obtained a complete appraisal signed and stamped by Smith from a Southern Chase resident. It was reviewed at the Observer's request by Bob Ipock, a Charlotte-area appraiser who reviews other appraisers' work for lenders. Ipock, a state-approved appraisal instructor, has testified before the N.C. General Assembly that he believes appraisal inflation is a major problem.

Ipock documented two factual misstatements and also procedural problems, which he said raised the value of the appraised home. For example, Smith cited the sales price of a similar home as evidence of the appraised property's value. The price she quoted is 7 percent above the price listed in county records for the only sale of the same home.

The appraisal also misstates

the description of a second home.

Smith said the first mistake was a typographical error. She said she meant to cite another home in the same subdivision. She said she was confident the second mistake was fixed.

Smith declined to identify the address of the other home, and the Observer could not identify any property that matched her description. Smith also declined to explain why both errors appear on a final appraisal provided to the home buyer, or why, if any corrections were made, they did not affect the appraised value shown in FHA records.

Smith said she is confident her appraisals are accurate and fair. She says she was never pressured by Beazer to raise home values, and never would have done so.

"I stand by my appraisals," Smith said. "They were underwritten. They met legal standards. They met FHA standards."