

Starter homes leading surge in Mecklenburg foreclosures

Trend from 1A

The troubled neighborhoods are concentrated west, north and east of downtown Charlotte, a crescent of deteriorating development that is putting pressure on surrounding communities.

"This is an issue we're going to have to address," says Charlotte City Council member Michael Barnes, whose district in northeast Charlotte contains more than a dozen high-foreclosure neighborhoods.

"Builders put them in, sell them and move on to another subdivision," Barnes says. "But we're all going to have to deal with the long-term repercussions... including increased costs for public safety."

Two kinds of loans

More than 8,700 homes have foreclosed in Mecklenburg County since 2003. The county's foreclosure rate is the highest in the state.

Two kinds of home purchase loans are associated with most of the problems, according to an Observer analysis of foreclosures in 2003 and 2004. Subprime loans accounted for at least 24 percent of Mecklenburg foreclosures. Government-insured loans accounted for almost 30 percent.

The same companies often arrange both kinds of loans. They work with homebuyers who don't get loans from conventional sources such as banks. Some of those people have bad credit, others have little savings or income, some simply don't know they could get a better deal somewhere else.

The subprime industry grew up in the mid-1990s. The companies charge high interest rates, but impose few restrictions on eligibility. Most of the loans are sold through independent mortgage brokers.

Investors provided the money for the subprime industry. They profited handsomely from borrowers' payments. But as defaults

rise, concern about those investments has driven down the stock market. Five of the largest subprime lenders have fired almost 6,000 people in the past year, including 250 employees of Wells Fargo & Co. in Fort Mill, S.C.

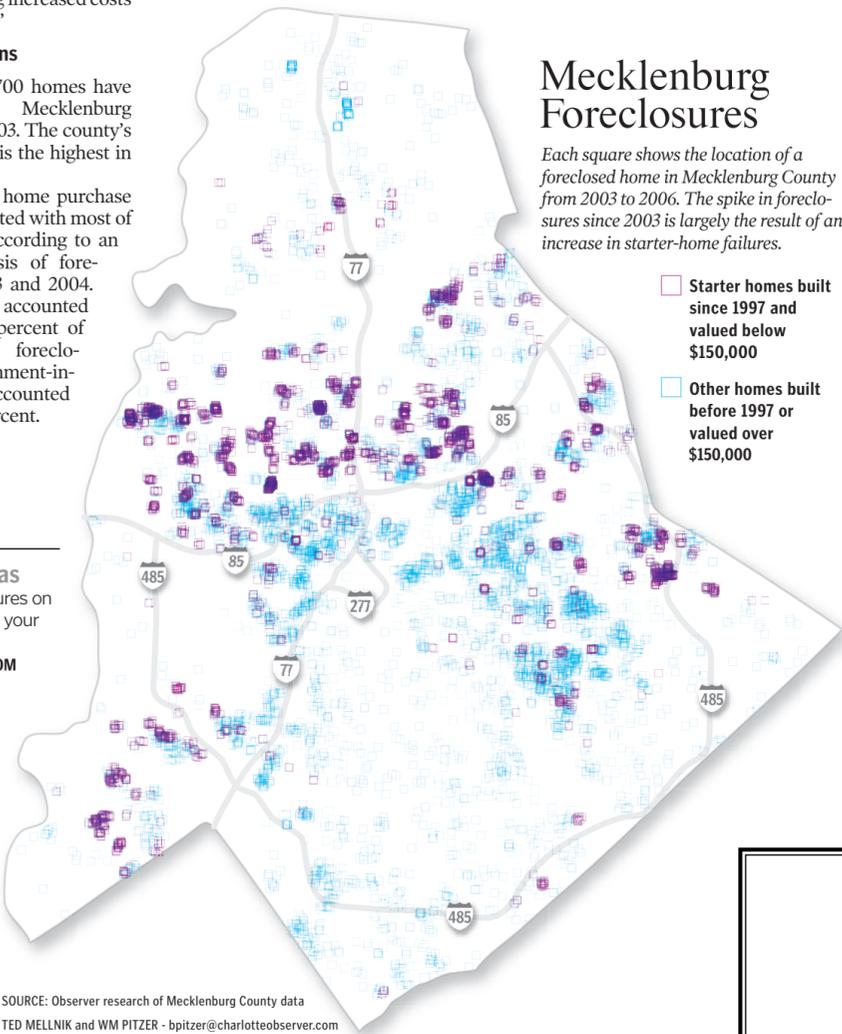
New Century Financial, the second-largest subprime lender, is on the verge of filing for bankruptcy.

Government-insured loans are also funded by investors, but the federal government promises to pay if the borrower doesn't. This encourages lending to lower-income families, but it leaves companies with little reason to exercise caution. In many cases, lenders made larger loans than borrowers could afford.

In Southern Chase, the Cabarrus County neighborhood profiled by the Observer on Sunday, the Federal Housing Administration already has spent \$5 million to compensate lenders, some of it for loans that didn't meet government requirements in the first place.

Experts say the number of foreclosures in Mecklenburg and nationwide is likely to increase again this year as monthly mortgage payments continue to rise.

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Online Extras

Look for foreclosures on your street and in your neighborhood at [WWW.CHARLOTTE.COM](http://www.charlotte.com)

How to buy your 1st home

Thinking of buying your first home? Here's a guide, based on advice from industry experts and consumer advocates.

Reflections from people who bought homes in Southern Chase:

1. BE PREPARED

■ **Get educated:** The Department of Housing and Urban Development offers information about local classes on buying a home and getting a mortgage loan: www.hud.gov/buying or 800-569-4287.

■ **Clean up your finances:** Pay down debts and save money. Several months before you start looking at homes, visit your bank or credit union. Ask whether you qualify for a market-rate loan. If not, ask how you can improve your financial profile.

■ **Get pre-approved:** When you're ready to find a home, ask a lender to estimate how much you can borrow. Three times annual income is a good rule. Buyers get in trouble when they fall in love with a house and then go shopping for the necessary loan.

■ **Find a real estate agent:** This may be the only expert working for you during the sales process. Pick an agent who has experience in your price range. Insist that the agent represent you exclusively. Do not let the agent also represent the seller.



Jason Verrier

"I wish I had taken my time and saved money for a down payment."



Aaron Mahatha

"I could've got an older house, paid less and got a better house in a better neighborhood."



Chris Wood

"I figured if they approved me for a loan, then I could afford it. And I couldn't."

2. KNOW WHAT YOU'RE BUYING

■ **Look for stable neighborhoods:** Buying early in a new subdivision is a big risk. Better to buy one of the last new homes in a subdivision—they're often discounted, and you can see how the neighborhood is holding up. Also consider older neighborhoods, which tend to be more stable. Ask residents about renters and foreclosures. Both are bad signs. You can view foreclosures in any Mecklenburg neighborhood at Charlotte.com and check out property histories on the Mecklenburg County Web site at <http://meckcama.co.mecklenburg.nc.us/relookup>.

■ **Pay a home inspector:** Get a careful inspection before you buy. Review the report with your real estate agent. You can negotiate with the seller to make many repairs, but only before you close the deal.

3. BORROW CAREFULLY

■ **Make your own down payment:** If you don't have the money, you may not be ready to buy a home. Buying a home with no money down means you have no equity, making it harder to sell or refinance if property values decline. Buying a home without any savings means you have no cushion for a loss of income or an unexpected expense.

■ **Decide how large a mortgage payment you can afford:** It is easy to borrow more. Don't count on the lender to exercise restraint on your behalf. Borrow based on the maximum payment, not the introductory payment. If the pay-

ment rises after the first or second year, make sure you can still afford the loan in the third year. Don't count on money you haven't received. And don't count on refinancing to escape. Rates could rise. Property values could fall. You could be stuck.

■ **Shop around for a loan:** Mortgage brokers and loan officers don't work for you. They have no legal responsibility to find you the best possible deal. Often, they can make more money by increasing your interest rate. Visit several banks or mortgage brokers. Ask each for a "good faith estimate," a document listing

your interest rate and closing costs. Total fees should run between 3 percent and 5 percent of the loan amount. Ask about any fees you don't understand. Feel free to negotiate.

■ **Insist on getting all paperwork before closing:** Review it carefully. Signing means you agree to the terms, even ones you don't understand. Ask plenty of questions. Make sure your financial information is correct and the rate and fees are what you expected. Demand an explanation if there are any new documents at the closing. — LISA HAMMERSLY MUNN AND BINYAMIN APPELBAUM

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 So Far at Charlotte.com

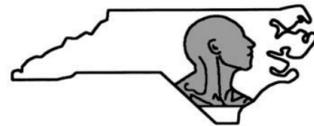
On Sunday, the Observer charted the problems of the foreclosure-plagued Southern Chase development in Cabarrus County.

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.

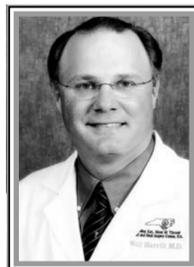
The strategy was a financial success for the Atlanta-based home builder. But the neighborhood fell apart. Seventy-seven buyers have lost homes to foreclosure in a subdivision of 406 homes. That's about one in five, more than six times the national rate.

Coming Tuesday: Beazer Homes told the Observer that Southern Chase, built from 1997 to 2004, was its only neighborhood built in the same time period with a high foreclosure rate. Read what we found when we checked.

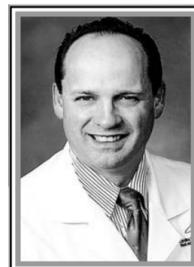
Coming Wednesday: Local, state and federal officials didn't track where foreclosures piled up and continued policies that encouraged starter-home construction.



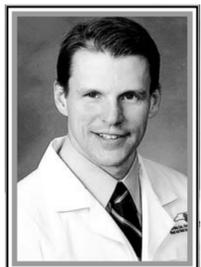
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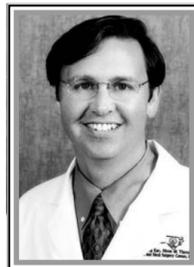
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Roger Cole, MD



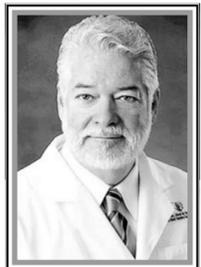
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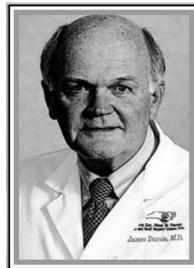
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