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## Neighborhood swayed by 'liar's loans'

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BOSTON (AP) -- Upstairs at Victory Chapel Church - a cinderblock bunker converted from a long-ago Ford dealership - the pews are reserved for praising heaven. But downstairs, in a basement rental hall, a pair of women preached of worldly wonders.

At 11 a.m. on alternating Saturdays, they set out rows of folding chairs and spread tables with urns of coffee and boxes of Dunkin' Donuts. And they offered testimony to the bounty of real estate, encouraging their growing flock to buy the wood-frame walk-ups and rowhouses surrounding this workaday stretch of Columbia Road, just down from the OJ Car Wash.

The key was trust, they told the faithful, as the voices of the practicing choir rang through the building.

Still, Valerie Hayes was a little skeptical.

"I really was thinking it would be at least a year before I'd get a mortgage," says Hayes, an executive secretary and mother of two. She was wary of borrowing because she was saddled with her own student loans.

But "on Saturday I went to the seminar," she says. By Sunday, she was preapproved to buy.

Soon after, Hayes did buy. The problem, prosecutors say, is that the women put Hayes and others into homes they couldn't possibly afford. They did so by filling their loan applications with details of jobs, paychecks and bank accounts that were all so much fiction.

What happened in this church basement was no fluke; it happened elsewhere, too.

Much has been made of the very questionable lending that accompanied the rapid growth of subprime mortgages, a phenomenon that made homeowners of so many people. But less attention has been paid to the gimmickry and manipulation that delivered the loans an industry craved.

Some say this was nothing short of fraud. Those accused reject the charges. The case also raises tough questions of whether borrowers, too, should bear some responsibility.

But the bottom line is beyond dispute. Valerie Hayes can tell you about that. Just don't go looking for her at the home she bought, thanks to the women at Victory Chapel Church.

It's owned by the bank now, and there's a real estate agent's lockbox on the door.

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Over the past decade, the mortgage industry has turned itself into a very big tent.

People who might have had trouble borrowing found it much easier to get a loan. Lenders devised new types of loans and eased standards to bring buyers into the market.

As a result, homeownership reached record levels. But as interest rates rise and the market cools, it becomes clear many people were put into punishing loans they couldn't afford.

That is particularly evident in the enormous growth of what the industry politely calls "stated income" loans - also known as "liar's loans."

Stated loans - whose borrowers list income and assets without having to prove anything - were meant for solidly self-employed buyers. Then they "morphed into a huge monster," says Connie Wilson of Interthinx, a maker of mortgage fraud detection software. "Now we have stated income programs for everyone."

The loans have become a huge piece of the subprime market. Last year, nearly half of subprimes required little or no documentation of income, a share that has nearly tripled since the start of 2000, according to First American LoanPerformance.

But in its love of these quickly processed loans, the industry overlooked the pitfalls.

A study by the Mortgage Asset Research Institute Inc. of 100 stated loan applications last year found almost 60 percent exaggerated incomes by at least half. A study by BasePoint Analytics found that 70 percent of mortgage defaults were linked to "a significant misrepresentation on the original loan application."

Mortgage fraud is most visible in the spectacular cases that draw prosecutorial muscle, involving fake buyers, property flipping, vast amounts of money. But that overlooks smaller-scale foul play now costing many subprime borrowers their homes, experts say.

Often it's not considered fraud. It's pushing the envelope. It's a dollop of distortion topped with a measure of creative exaggeration. It's doing whatever it takes.

"There's a huge amount of broker fraud out there," says Kerstin Arusha of the Fair Housing Law Project in San Jose, Cal., which represents low-income homeowners stuck in such loans. "When you look at the applications of many of these borrowers, I see it reported that they make \$10,000 or \$12,000 a month, sometimes \$20,000 a month. They always have \$100,000 in personal assets ... You can see that these things are created by the broker."

Of course, most real estate agents and mortgage brokers are honest.

But there have been too many in the last few years "who stretch the truth ... that make deals happen that really shouldn't happen," says Jim Croft, founder of the Mortgage Asset Research Institute.

"And they always have the fallback that they're not dishonest," he says. "They're just helping Jill and Joe Six-pack get into the home - and realize the American dream."

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Frances Darden dreamed of buying a house. And not just any house.

It would be in Boston, because this was home now. But it would look and feel like her grandparents' place in the South Carolina of her childhood, because that's what home meant.

It would have a backyard for barbecues and a front porch for conversation. Its French doors would usher visitors from living room to dining room. It would not be a grand place, mind you, but thinking about it made Darden feel just grand.

Still, it was lot to imagine for a hair stylist on disability, reliant on a subsidized housing voucher and supporting two teenagers. Banks told Darden to scale back her dreams, offering to lend, but not enough to buy in her own neighborhood.

Then, in September 2004, she spotted an ad in the weekly Banner.

"Want to Buy a Home? Credit Less Than Perfect?" beckoned one of what would become a series of ads by Champagne & Associates, a real estate agency in her neighborhood of Dorchester. The slogan above the agency's name made Darden optimistic.

"Let's Make History," it said.

Darden went to Champagne's free seminar with her friend, Annie Neal. It was held in the agent's office, facing a traffic-filled avenue, between a storefront daycare center and Linda's African Braiding & Clothing. Agents had pushed the desks back to the green stucco to make room for an audience. The prospective buyers met two women who vowed to help them.

The first was Champagne's owner, Roberta Robinson, a former mortgage broker who'd started her own real estate shop.

"She had an answer for every question," Darden says.

The second was Rachel Noyes, a bartender-turned-mortgage broker who brought her toddler to some seminars, and promised to unlock the secrets of buying real estate.

"I really felt like I was helping people get into homes," Noyes said in a recent telephone interview. "The one question I always asked, to drill into your mind, is: How much can you afford?"

But those who attended the seminars - describing the experience in interviews and court papers - don't remember it that way.

"As long as you're honest with me," Valerie Hayes recalls Noyes saying, "I guarantee you I can you get you into a loan."

At session's end, organizers asked for Social Security numbers to run credit checks.

"We're not going to be approved to buy a home in Boston and I don't want to go out to Lowell," Darden recalls thinking.

But a couple of days later her phone rang. It was Robinson - with good news.

Darden had been preapproved for a loan. Up to \$360,000!

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It only took a few weeks for Frances Darden to find her dream house - a two-family set on a corner of Harvard Street with pale yellow siding, a small front porch and another on the back. But could she afford it?

Darden says Roberta Robinson calmly reassured her.

"I have always been about educating the consumer regarding real estate since I hit the scene," Robinson wrote of herself in an advertising directory. "I feel the first step in homeownership is working with an informed client."

Robinson did not return calls and her attorney declined to comment.

When another bidder pulled out of a deal for the house, Darden says Robinson called with more good news.

"She said, 'You have some good credit, girl, because you got approved for two houses,'" Darden recalls.

"How is that possible?" wondered Darden, who says she first told the agents she could afford only \$1,500 to \$2,000 a month in payments.

Renters, she was told, would help her carry the load of her own home, and the costs would be further offset by a three-family rental property.

Soon, mortgage applications -almost entirely blank - arrived in the mail. Darden signed and returned them. In November, Darden closed on the first house. In December, she closed on a second.

She'd been preapproved for \$360,000. Now she was borrowing \$894,000.

It would cost her \$7,194 a month.

It wasn't until seven months later, though, after she struggled to find tenants and maintain the buildings, that Darden began to wonder just what had happened. It began to make sense only when she studied the finished paperwork.

When she bought, Darden was receiving \$1,800 a month in disability payments - as she recovered from a collapsed lung - sometimes supplemented by child support of \$150 a week.

But the mortgage application described a woman she did not recognize: an administration manager for a medical supply company, earning \$114,000 a year.

Meanwhile, the real Frances Darden was quickly falling behind.

In June 2005, Darden says she went to the Champagne office to demand help in refinancing her loans. By now, though, the effort to recruit buyers had outgrown the space on Blue Hill Avenue and moved to the church. Some of the sessions were drawing 40 or 50 people.

Robinson tried to help her sell the second home. But Darden was going through a divorce, tying up the home's ownership. She was and falling farther behind.

Now it had been a year since she'd become a homeowner. Long enough for the lender to lay claim to the investment property and begin foreclosure.

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One of the most notable things about Frances Darden's story is how much it echoes the others.

Valerie Hayes says she knew something was very wrong when she went to close on the \$440,000 loan for her house, a two-family in East Boston. She'd agreed to \$2,300 payments because of expected rental income. But the documents listed payments at \$3,300 a month.

"I see the real mortgages and it's apparent to me I got robbed," Hayes says, "but I'm thinking I'm going to make this work."

Why didn't she walk out? Because she'd already given up her old apartment and had a tenant waiting to move in. Within months, though, maintaining the building depleted savings already strained by the mortgage payments. That's when she noticed the reference to a second job - one she never had - earning a fictional \$1,846 a month working for Champagne.

Late last year, Hayes moved out and the lender began foreclosure.

Others are still trying to hold on.

There's Macdala Louis, a nursing assistant, who bought on Edwin Street. Her loan application said she had a second job working for a company, Hart Professional Cleaning, that does not appear to exist.

And Jennifer Stone, a medical assistant who bought a \$489,000 home with her partner, a special police officer.

"They said we had accounts we didn't even have. They said we had \$50,000 in the bank," Stone says. "I didn't even have \$700 in my 401(k)."

Dorchester, a sprawling mostly black neighborhood where many families get by on tight paychecks, has many homeowners who struggle. So when Darden went to see a foreclosure prevention counselor at ESAC, a nonprofit chartered by a number of Boston churches, it was hardly out of the ordinary.

It looks like you make pretty good money, counselor Steve Bennett told her, studying the mortgage paperwork. No, Darden insisted, that's not me.

Bennett wondered. Then he heard the same story from a second homeowner. And a third.

"This was a huge learning curve," says Robert Pulster, the agency's executive director. "What the hell is going on here and how did this happen?"

In August, Massachusetts' attorney general filed a civil lawsuit in state Superior Court accusing Robinson, Noyes and their companies of using "unfair and deceptive tactics to target and deceive low-income consumers into committing to mortgages they could not qualify for or afford."

The women pocketed thousands of dollars in commissions and fees for putting together deals and loans bound to fail, the suit says.

Prosecutors have obtained court orders restricting the activities of the women and their companies, both of which have closed. While the case awaits trial, however, Robinson has resurrected her real estate business in a nearby Boston neighborhood under a new name - Opulent Realty Inc.

Noyes, who moved to Florida, recently lost by default after she stopped appearing in court to contest the charges. But damages have not been set and she continues to deny any deception.

It was the real estate agents who "were pushing people into homes they shouldn't have been," Noyes says. Borrowers, too, bear responsibility, she says.

"With stated income loans ... because there's no documentation, you're going by what the buyer is saying," Noyes said. "Who am I to say: 'You're a liar. You don't make that.' Should I have had better judgment? I don't know."

The borrowers reject that argument outright. Darden rushes to her bedroom and returns with a bag full of documents, pulling out a copy of the mortgage application she signed. It is all but blank.

If they deserve blame, she and other buyers say, it's for being too willing to believe and too naive to ask questions.

On a cool spring evening, Hayes walks from the modest but tidy one-bedroom rental she shares with her college-age son and daughter, three blocks up to the home she lost. It takes just a few minutes, but confirms how far she has come.

If she gets another chance at ownership, she'll be wiser, Hayes says, recalling that Saturday morning listening to a pitch in the church basement.

Subprime loans?

"I never knew they existed," she says, "until I got one."

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