

# YAHOO NEWS from the Associated Press

## Mortgage mess hurts Main Street, beyond

By DAVE CARPENTER and J.W. ELPHINSTONE, AP Business Writers Sat Aug 25, 12:39 PM ET

The walls are bare, the closets are empty, and Connie and Timothy Pent and their two teenage children are living out of boxes as they wait for a dreaded knock at the door of their three-bedroom house in Ocala, Fla.

They've fallen behind in payments on a their home loan, and their lender told them in July that foreclosure was imminent.

"We thought we were fine," said Connie regretfully. "You never know."

An increasing number of homeowners and prospective homeowners are getting caught up in the fast-spreading mortgage crisis that is claiming victims from all income levels and demographic groups. Like the Pents, many are trying desperately to get their loan terms reworked but are finding it's not possible in a tightened market.

For five years, the housing boom put money in the pockets of lenders, brokers, realtors and investors and granted easy mortgages to homeowners with both good and blemished credit. But as home prices decline and interest rates climb, the cracks in the housing market's foundation are widening.

Exotic mortgages, once hailed for helping to increase U.S. homeownership to its highest level at 68.9 percent, have become the undoing of an entire industry and, most heartwrenching, millions of homeowners.

Loans with adjustable rates, payment choices and loose requirements have trapped borrowers in too-high payments with few options for escape. Some have taken on second and third jobs, depleted savings, retirement and college funds and wrestled with lenders to stave off foreclosure. Those who fail see their homes sell to the highest bidder at an auction.

"The increasing availability of mortgages has been an important and positive long-term trend," said Doug Elmendorf, a Brookings Institution economist. "But like many positive developments, this one was taken to an unjustifiable extreme."

Many of the victims are subprime borrowers — those like the Pents who don't qualify for market interest rates because of blemishes on their credit record. The Center for Responsible Lending estimates that 2.2 million subprime home loans made in recent years have or soon will end in foreclosure.

But there are many other ways to be hurt in the mortgage crunch.

Many prospective home buyers, through little fault of their own, are having trouble getting mortgages because of the changing market.

Others were sold on too much house, piled up huge loans based on the inflated value of their property and didn't fully understand the interest rates they would have to pay. Now, they are struggling to keep up with the payments.

The bloodletting won't slow anytime soon as more of these exotic loans reach the tipping point in the next year.

Nearly \$1.12 trillion worth of hybrid and traditional adjustable-rate mortgages were originated in 2005 and 2006, while \$779.13 billion of interest-only ARMs were issued in that period, according to a survey from the Mortgage Bankers Association.

Many of these loans offered low "teaser" interest rates that will reset through 2009, slamming borrowers with higher rates that could send them into delinquency if they can't refinance.

Attempts to rework troubled loans will become increasingly common as the crisis picks up speed, said James Gaines, a research economist with The Real Estate Center at Texas A&M University. After all, foreclosure benefits neither lender nor borrower.

The problem, he said, is that the lender may not have any authority to redo them because of the way loans are now bundled and resold, with repayment risk changing hands several times.

"It's unlike the old days where the bank you borrowed from just kept your loan on the books," he said.

David Downs, a professor of real estate at Virginia Commonwealth University, believes blame for the current quagmire falls on all involved. But he says the consumer should be held accountable first and foremost for failed loans.

"If somebody takes on financial risk, it's incumbent on the consumer to understand that," Downs said.

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The Pents grieve losing their three-acre property in the middle of horse country, with its swimming pool and fish pond.

"It was my dad's house," said Connie, 39, an elementary schools receptionist. "It's quiet, it's open — we love it."

Their troubles began in April 2006 when they refinanced the remaining \$207,000 on a 30-year fixed loan to a two-year adjustable rate mortgage so they could pay down hefty obligations on their SUV and pickup truck.

A mortgage broker informed them just before the closing that the remaining debt would be \$3,500 more than expected, but they signed anyway.

"We didn't have time to change the terms so we just signed them," Connie said.

About the time the first payment on the new loan came due, a sequence of events left them unable to keep up. First Connie's mother moved out and stopped helping out with mortgage payments. Then her husband Timothy lost his job at a mobile home factory because of the housing industry slump.

Their loan servicing company first demanded payments, then stopped returning their calls.

Connie wishes the lender and servicing company would have been easier to get a hold of, easier to talk to. But she knows she and Timothy shoulder some of the blame.

"We probably should have been better prepared for it," she said. "When the job goes, unfortunately, so does everything else."

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With two adults, two small children and three dogs, Val Rasmussen's 14-by-70-foot trailer in Lincoln County, Mont. was crowded. After her husband, Tom, landed a better-paying job, they decided to sell the trailer and move into a three-bedroom house near her grandparents.

"This was a pretty major step for us buying a house," the 27-year-old Rasmussen said.

With their trailer languishing on the market, the Rasmussens went ahead with the purchase with 100 percent financing from First Magnus Financial Corp.

The family closed on the \$159,000 loan last Wednesday with the big move scheduled for Saturday. But on Thursday morning, First Magnus informed them that the loan would not be funded. The Tucson-based lender, which was on track to fund \$36 billion in mortgages this year, suspended its operations indefinitely.

"I was a mess," Rasmussen said.

The Rasmussens scrambled to find a new loan, but found no one was underwriting 100 percent mortgages anymore. Desperate, the Rasmussens dropped the price of their trailer by \$10,000 and found a buyer.

They plan to use the money to secure a traditional 30-year fixed-rate mortgage with 20 percent down, but they worry that their buyer could run into trouble, too, in the current mortgage market.

"The game plan is to make sure this guy gets his financing," Rasmussen said. "The house that we bought is just sitting there vacant. This is really hard for the seller, too, because they put down money on some land. We're all just waiting, hoping this goes through."

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Jeanna and Vernon Marshall were renting a home for themselves and their seven children when the owner decided to sell and gave them 30 days to move. So in January last year, they hurriedly signed what they thought was a \$365,000 30-year fixed mortgage on a four-bedroom home in the upscale city of Henderson, Nev.

After the closing, they realized they had signed onto a two-year interest-only adjusted rate mortgage that they could barely afford, with a payment of \$2,923 a month.

"What they do in escrow is they shove papers two different ways, to both people, like a crisscross," said Jeanna Marshall, 36. "You're signing so many documents so fast. I don't know how the ARM slipped past us."

Marshall, who is disabled, receives \$1,500 in Social Security payments a month, while her husband Vernon, 41, is a driver for UPS netting about \$3,000 a month. Last year, however, Vernon's work slowed down and they fell seven months behind on their payments. They tried renegotiating, but the mortgage companies only wanted more every month. No other company would refinance the loan because it carried a \$20,000 early payment penalty.

The house went into foreclosure in May, and the Marshalls are looking for a place to rent. With their oldest now 17, Jeanna is worried about college.

"We're hoping and praying on scholarships," she said. "We hope they can learn so they don't get caught up in the mess that we did."

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After her mother died four years ago, Gwendolyn Walkley retired and moved from California to a three-bedroom condominium in Daytona Beach Shores, Fla.

She originally bought the \$299,000 condo with a \$100,000 down payment and an adjustable-rate loan with interest rates that would reset after two years. At the end of last year, she wanted to refinance into a fixed-rate loan to avoid the higher interest rates on the ARM, but her broker sold her on a "great loan that very few people qualify for," she said.

Walkley, 56, had a high credit score in the 730s, she said, and carries no debt, except for her mortgage.

She thought the loan had an interest rate slightly above 6 percent, making her monthly payment less than her \$1,600 monthly retirement check. But it turned out that was a "minimum" payment that didn't cover the full monthly interest or any principal on the loan. If she wants to pay off the principal and interest on the loan each month, her interest rate bumps to around 8 percent and her payment to around \$1,800. Otherwise, the difference is tacked onto the amount she owes, ballooning her debt.

Walkley knew the mortgage smelled funny from the beginning when she turned away a notary the day before Christmas last year, refusing to sign documents that showed an 8 percent interest rate. But the broker reassured her that the interest rate was 6 percent and referred her to tiny writing on one of the document pages.

When the notary returned, Walkley signed, trusting the mortgage broker when he told her not to worry.

To avoid a swelling principal, Walkley has used all her savings and is now working through her stock investments to pay the full interest and principal payment each month. She hopes her investments last until the prepayment penalty period expires, two-and-a-half years from now, and then refinance into a 30-year fixed loan.

Walkley hasn't spoken to her mortgage broker since signing the documents, but she remembers his promise.

"He said 'You're gonna love this loan, trust me,'" Walkley said. "What a line."

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Sharon Reuss of the Center for Responsible Lending, a nonprofit organization that works to eliminate abusive practices in home mortgages, says loans that give borrowers a fixed payment for the first two or three years before the monthly obligations adjust sharply upward — dubbed "exploding ARMs" — have been particularly troublesome.

"What has happened in the market has been very reckless — the kind of loans that in no way take account of people's ability to repay them," she said.

That's what happened to the Fanfan family.

The three-bedroom bungalow that Milca and Josy Fanfan bought in 2002 in Brockton, Mass., a blue-collar suburb of Boston, wasn't their dream house. But at \$215,000 it was what they could afford for themselves and their 3-year-old son Nathaniel.

With subpar credit scores, the Fanfans were able to secure a loan from Ameriquest Mortgage Co. with a hefty fixed interest rate of 9.5 percent. The problems began when their mortgage broker called at the last minute to say they needed to come up with an extra \$8,000 in fees. Then at the closing, they were told the loan would be adjustable-rate, not fixed.

Milca tried to read everything she signed at the closing to learn how high the rate would go, but she found it impossible as sheet after sheet of paper was thrust at her.

"I had a gut feeling that this was not good," the 48-year-old information technology professional recalled. "They said, 'Don't worry about it, just keep your credit clean. In two years, you can refinance.'"

But Josy, a self-employed remodeling contractor, lost a finger in an on-the-job accident and was out of work for months. That put the couple behind in payments, and refinancing was out of the question. Meanwhile, the mortgage rate kept climbing.

Milca asked that the loan be reworked, to no avail. Meanwhile, monthly payments on the adjustable-rate mortgage have ballooned from \$1,700 to \$3,000.

"I've heard on TV where the lenders want to work with you," she said bitterly. "Bullcrap. ... These people are not out to help you, they're out to take your home."

Milca called her lender almost daily without response and piled up attorneys' bills and late fees. She had problems sleeping from all the anxiety, and her hair started falling out.

"Every month it was like 'Is this nightmare going to be over?'" she said. "How could somebody be asked to pay \$3,000 a month on a mortgage that's \$193,000? That's highway robbery."

Ameriquet spokesman Chris Orlando said the loan was made through an independent broker and that his company had worked with the Fanfans for some time to keep them in their home.

After foreclosure proceedings began in February, Milca was referred by her state bank commissioner's office to a state-funded agency (Jamaica Plain, Mass.-based ESAC) that fights unscrupulous mortgage lenders and brokers.

Through ESAC, the Fanfans negotiated a rate of 9.5 percent and the right to refinance in two years. The monthly battle to make payments isn't over, but Milca is working several jobs to make sure it is won.

"I want people to know they can fight," she said. "Don't be ashamed to cry out for help."

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AP Business Writer Ryan Nakashima in Las Vegas contributed to this report