The New York Times
nytimes.com

November 24, 2002

Easy Credit and Hard Times Bring a Flood of Foreclosures

By PETER T. KILBORN

NDIANAPOLIS, Nov. 23 — The epitaphs of foreclosed homes have spread like crab grass across Indianapolis.

On one block of Dearborn Street on the city's Near East Side, half of the one- and two-family row houses have been shuttered. "This property was found vacant," seven-month-old stickers on one say, "and in accordance with mortgage agreement, HUD or V.A. guidelines, has been secured."

Seven miles northwest of downtown, in the tidy young subdivision of Lakeside Manor West, plywood covers two windows of a house with beige vinyl siding and touches of brick. An empty Fanta bottle lies on the vinyl floor of the foyer, and bits of debris cover the living room carpet.

"Warning," the notice beside the front door declares. "This is the property of the United States government."

Sixty-eight percent of all American families own homes, the most ever and a sizeable increase from 64 percent a decade ago. But in another aftershock of the bingeing 1990's, merchants of the dream have become its morticians. More mortgages than ever are being foreclosed, and more homes repossessed.

Nowhere is the problem more severe than in Indiana, long a leader in home ownership. At midyear, the Mortgage Bankers Association of America found 2.22 percent of Indiana's home mortgages in foreclosure, the most for any state, a trend experts attribute to the state's loose lending regulations and its rising unemployment rate, the byproduct of a struggling manufacturing economy. The home ownership rate here has slipped to 72 percent from 74 percent.

All states are affected. In the three months that ended in June, the association reports, creditors across the country began foreclosing on 134,885 mortgaged homes, or about 4 in every 1,000 — the highest rate in the 30 years that the association has been monitoring mortgages. Creditors' backlogs of foreclosed homes reached 414,772, another record.

Foreclosures among the 26.4 million families with sound enough credit to get conventional loans are rare but growing. Since late 1999, as the boom was slowing, the association reports, the number of foreclosed conventional loans has climbed 45 percent, to 76,526, the highest level in 11 years.

They are much higher among low- and moderate-income families with so-called subprime loans — higher-interest-rate loans made to borrowers with imperfect credit. Of their 5.4 million mortgages, 150,000 were being foreclosed in June.

"We're seeing the implications of reduced standards that subprime lenders applied," said William Apgar, the federal housing commissioner in the Clinton administration, now a senior scholar at the Joint Center for Housing Studies at Harvard. "The expectations were that we would see more fail, and now we're seeing them fail."

Mr. Apgar said that people with subprime mortgages, which were rare five years ago but are commonplace now, were eight times more likely to default than those with prime, conventional mortgages.

With the rise in foreclosures, record numbers of families have applied to hold on to their homes under Chapter 13 of the federal bankruptcy code. At midyear, the Administrative Office of the U.S. Courts reports, Chapter 13 covered 220,720 homeowners, 8 percent more than a year earlier and the most ever.

Maj. Shirley Challis, who conducts sales of foreclosed property for the Marion County Sheriff's Department here, said she listed fewer than 1,000 a year five and six years ago. By Thursday, she had listed 5,532 for this year alone. "That's pretty massive," Major Challis said.

Each Thursday is Chapter 13 day on the 10th floor of a glass-wrapped office tower in Indianapolis. Tightly scheduled homeowners and their lawyers, and creditors and their lawyers, gather before Ann DeLaney, a federal bankruptcy trustee for the Southern District of Indiana.

The trustee determines what the homeowners can pay on their debts. If they stick to the plan, their slates are cleared in three to five years.

"You're going to have people who are abusing the system," Ms. DeLaney said. "But you get a lot more people who are struggling. They are trying to do the right thing. But one small thing can put them into a debt spiral. They don't have a great amount of debt." Apart from the mortgage, it is usually $8,000 to $10,000, she said.

Sandra Weaver, 38, and her husband, Michael Weaver, 39, came in with their lawyer, Mark Zuckerberg. They have two children and a house on three-quarters of an acre.

Mrs. Weaver lost her factory job making plastic bags and took another job, paying half as much, at a convenience store. Mr. Weaver makes aircraft parts, but his hours have slowed. "We couldn't catch up with our mortgage payments and didn't want to lose the house," Mrs. Weaver said. "The bank called. We tried to refinance, but people wouldn't let us."

The Weavers received fliers in the mail from bankruptcy lawyers, including Mr. Zuckerberg. He worked out a plan to pay off $9,000 in delinquent debt, mostly the mortgage. "They're paying 100 percent," Mr. Zuckerberg said. "They'll make it."

Foreclosures have been climbing in spite of a five-year-old Department of Housing and Urban Development program intended to hold them down. When a family falls behind in payments, HUD sends the lender a check for the delinquent amount. The homeowner signs a note promising to repay the agency without interest. A senior HUD official said 72,000 families were participating this year, almost three times the number three years ago.

Families fall behind because of lost jobs in the sour economy, medical emergencies and divorce. They trip on credit cards and inflated expectations for their incomes. "They signed up to be in the situation they're in," said Mildred Wilkins, a real estate agent here who sells foreclosed homes and runs a consumer advocacy firm, Home Ownership Matters. But many also succumb to fine print, slick salesmanship, deception and fraud, she said.

In the 90's, she said, "builders and lenders did not present all the facts. People were enticed into situations they did not understand, and they ended up getting duped."

In two big settlements to stop predatory lending, CitiGroup Inc. agreed in September to reimburse buyers $215 million, and in October, Household International agreed to pay up to $484 million.

Larry Alrey Jr., 37, could be next in court. He was paying $1,232 a month for two mortgages on a home in Clearbrook Park, a new, moderate-income subdivision on the city's south side. Moving from a trailer with his wife and 3-year-old son, he bought the house six years ago for $98,000.

Two years ago he was fired from a job managing a dry-cleaning store that he had held for 11 years. His wife, who earned about $11,000 a year from two part-time jobs, left him. He found another dry-cleaning job, paying $38,000 a year, but the business declined, and in September he lost the job.

Mr. Alrey is collecting unemployment benefits while scouring the city to find work. "It's bleak," he said. He has sent out 80 résumés, he said, and delivered 35 more to prospective employers.

His larger mortgage, on which he pays $844, is three months' delinquent. "The mortgage company is turning me over to their attorneys," he said. "They're saying I have to come up with half of what I owe," about $1,300. Failing that or missing another payment, he can expect the sheriff to serve him with a foreclosure notice.

In foreclosure-prone neighborhoods, house prices are dropping, too. The developer's discreet welcome sign to the 303 houses in Indianapolis's Bayswater subdivision advertises prices in the "low- to mid-100's." Those were the prices in the late 1990's. But records of 75 sales from January 2000 to September of this show an average price of $95,000. HUD repossessed 8 of the 27 sold this year, 4 more than in 2000.

Jim Albin, 28, an Indianapolis police officer, has lived in a three-bedroom house in Bayswater for five years and wants to move to something bigger. "We're kind of stuck," he said. A year and a half ago, he said, a neighbor with a house like his put it on the market for $104,000. "They haven't been able to sell," he said. "They've gotten a new appraisal, for $20,000 less."

Of his neighbors being foreclosed, Mr. Albin said: "I'm a big advocate of personal responsibility. But sometimes these companies throw the American dream in your face. You get a fast-talking lender. I can see why normally levelheaded people get sucked in."