

First-time buyers see dreams fade

Easy mortgages, overvalued homes are leading many into foreclosure

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Rock-bottom interest rates and low-down-payment mortgages have allowed more first-time homebuyers to fulfill the American dream in recent years, but some say the dream has turned to nightmare.

A number of inexperienced buyers now face foreclosure, complaining they didn't realize the high cost of homeownership -- everything from adjustable rate mortgages to hidden taxes to construction defects.

Even those who don't face foreclosure are left with diminished property values when neighbors abandon homes.

"It's not about wealth- building. It's not at all. It's about future, blighted communities," said Aisha Sabur, a resident of the Eagle Trace neighborhood on the Northwestside.

Builders say the buyers need to take some responsibility in their financial affairs. Beazer Homes' Crossmann division, which has been targeted by some homebuyers and activist groups, says it has been trying to educate its buyers with a program that includes budgeting, taxes, responsible use of credit and the process of applying for a mortgage.

But some Northwestside residents who recently went to sell their homes in Eagle Trace and nearby Morningside said appraisals on their homes came in at \$20,000 less than what they paid for them only a few years earlier.

Already in foreclosure is Dee Barnes, who lives in the nearby Cooper Point subdivision.

Barnes bought a house in 1999. She was surprised that Irwin Mortgage, which her builder recommended, approved a \$103,000 mortgage with her then-income of about \$25,000.

Irwin later sold her loan to a national mortgage company, which would not work with her when she fell behind in payments.

The reason: "They basically are telling me I don't have enough income to maintain the mortgage," said Barnes, who said she now earns \$4,000 a year more than when she bought the house.

"Nobody is looking at the fact of how did I get into the home in the first place?"

Irwin said Barnes met FHA loan guidelines to qualify for the loan.

Such scenarios are fueling a debate over just who is responsible for foreclosures and other troubles facing first-time buyers.

Momentum is growing to stamp out so-called predatory lending involving mortgages. Consumers and community groups met Wednesday night at Glendale Community Center to hear details of House Bill 1229, which would establish a "homeowner protection unit" under the office of the Indiana Attorney General.



Dee Barnes' Northwestside home, purchased in 1999, is in foreclosure. She initially was approved for a \$103,000 mortgage with her then-income of about \$25,000. -- Charlie Nye / The Star

The bill sponsored by state Rep. Jeb Bardon, D-Indianapolis, would allow for penalties of up to \$15,000 per violation for deceptive lending practices. It also would require the Indiana Housing Finance Authority to provide home ownership training programs and also require a study of predatory lending and Indiana's high foreclosure rate.

The Association of Community Organizations for Reform Now, a national activist group that represents low- and moderate-income individuals, levels much of the blame at builders of entry-level homes.

ACORN over the last year has staged protests at builder sales offices. It claims to have shut down for a day a Beazer Homes sales office in Indianapolis by scaring off customers.

ACORN points to flyers that Beazer and its low-end subsidiary, formerly called Crossmann Homes, mailed to apartment dwellers in recent years.

The ads tout mortgages for roughly the same price of rent. Some ads appeal specifically to those with past bankruptcies and foreclosures and declare that even "disabled veterans, single mothers" might qualify.

"It really sets up first-time homebuyers to fail," said Kate Van Winkle, an ACORN organizer in Indianapolis. "We obviously want people in homes, but not at this cost."

During nearly three years as a foreclosure specialist at Fannie Mae, Mildred Wilkins watched foreclosures in the area rise by about 400 percent.

About 75 percent of those have been new construction, involving properties less than six years old. Much of the problem lies with federal loan programs offered by traditional lenders that were designed to make housing more attainable, said Wilkins, now a consumer advocate and president of www.HomeOwnershipMatters.com.

The programs have reduced the down payment required from 10 percent to 3 percent -- to nothing, in some cases. They also have lowered the acceptable credit scores and raised the debt/income ratios crucial in determining loan eligibility.

A number of these mortgages also offer enticing initial interest rates or "buy-downs" that charge a low rate in the first year. But the rate climbs in the second and again in the third, when the rate is locked in for the duration.

For example, the mortgage payment would increase \$200 a month by the third year of a \$162,000 mortgage that started at 4.125 percent and rose to 6.125 percent.

For a first-time buyer barely able to afford the initial payments, the increase could be devastating by the third year.

"These loan programs were designed to make housing more affordable, easily attainable and available for everyone," Wilkins said. "They have succeeded with an astonishing and totally unacceptable side effect -- unprecedented foreclosure rates."

Indeed, during the third quarter of 2002 Indiana had the highest foreclosure rate in the nation: 2.38 percent of loans in foreclosure versus the 1.15 percent national foreclosure rate.

Last month, about a dozen Morningside residents who have sought help from ACORN gathered at a home that is in foreclosure.

Some of these first-time homebuyers said they didn't fully appreciate the impact the buy-down program would have on their monthly budgets.

Others complained that construction defects have cost them dearly.

Sabur said her dryer caught fire, a problem traced to the builder's crew accidentally driving a metal fastener through her wiring. Insurance covered the cost of the fire except for her \$500 deductible, a burden for someone living on a tight margin.

Also blamed for diminishing property values are the high number of foreclosures. Many hard-pressed residents give up on maintenance and lawn mowing before they move out, destroying curb appeal. And foreclosed homes may carry even lower purchase prices, attracting to the neighborhood those who are even worse off financially.

But ACORN's Van Winkle said some of the homes in entry-level neighborhoods were overpriced from the start.

Wilkins agrees. Many builders push customers to use one of their "preferred" mortgage companies.

In this relationship, the lender's appraiser has high incentive to set a price that matches the builder's asking price -- which might be substantially more than reasonable market value.

To get the customer to use the builder's preferred mortgage company, the builder uses incentives such as offering to pay points or closing costs.

When the homeowner later goes to sell the house, an independent appraiser might determine a fair market value far less than the original selling price.

Beazer, whose Crossmann unit built Morningside and Eagle Trace, disputes claims of declining property values.

Citing Multiple Listing Service records, Beazer said the average sales price per square foot of its newer homes in Pike Township rose to \$73 in 2003 from \$70 in 2002. "We don't see any evidence that we're dealing with values that have been plummeting," said Mary Ann Lee, regional vice president of Beazer Mortgage Co. If anything, she said, Beazer has been a leader in reaching out to first-time homebuyers and to teach them how to buy and maintain homes.

In the late 1990s, Lee helped put together a program at Crossmann that covered such things as budgeting, taxes, responsible use of credit and the process of applying for a mortgage.

"I had been in the mortgage businesses. It didn't take me long to realize there were a tremendous number of folks who wanted to buy homes who just weren't ready to buy homes yet."

Lee said the program has been expanded and now is mandatory for some buyers. "Since 1998 we have educated 5,498 customers or potential customers, in a formalized setting."

David Apodaca, Beazer's Indianapolis-area customer care manager, is incredulous over assertions by some homebuyers that they were not made aware about the financial realities of buying a home.

Apodaca said one of his own salespeople told him he needed to clean up his credit before he built a home, including retiring some credit-card debt. "I was even told to wait a year to get a house."

Ultimately, buyers do have responsibilities.

Sometimes would-be buyers hear only what they want to hear, said Patricia Jordan, training coordinator for the Indianapolis Neighborhood Housing Partnership.

"In general the most common problem seems to be that people aren't educated" about home buying, Jordan said.

One question buyers fail to ask, or do not fully comprehend, is the impact of an adjustable-rate mortgage, said Rebecca Haynes-Bordas, an instructor for Purdue University's Marion County Extension Service.

"A lot of times people haven't done a basic budget to begin with," she said. "People don't have money set aside in an emergency fund, and then they get a house and they're not prepared to deal with the repairs."

Wilkins suggests that buyers obtain the help of a real estate professional, even when they are building. The builder's salesperson represents the builder. "From the time the consumer walks in the door, he has no one who is representing him."

Wilkins also recommends that buyers, including those whose home is being built, hire an independent, qualified building inspector. The salesperson might try to discourage this by talking up the builder's warranty or by saying the customer can point out problems they see during a walk-through.

But those walk-throughs often reveal only cosmetic problems -- not serious structural issues that could be corrected before closing.

Wilkins points to mold problems suffered by some of Beazer's Trinity Homes customers, caused by improperly applied brick. The problem might have been found by an independent inspector before closing.

Trinity is remediating the problem, but some homeowners have had to move out of their homes for months and face the potential of diminished property value.

Meanwhile, ACORN is trying to recover damages on behalf of Morningside and Eagle Trace residents. It wants builders to change lending practices, as well as implement a ban on foreclosures and create a "bail-out" fund allowing residents to buy down their mortgages to reflect the true value of the homes.

The latter aren't likely without a successful court battle. Beazer officials say some buyers are wrongly trying to point a finger at the builder for their own misfortunes.

"There has to be some personal accountability here," Lee said.

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