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WNC not insulated from foreclosure trend

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Western North Carolina hasn't been hit as hard as most places by the wave of home mortgage foreclosures sweeping the country, but more families are losing their homes, and the problem appears to be worsening.

There were a little more than three homes per 1,000 households in WNC in foreclosure proceedings in 2007, according to figures compiled by California-based RealtyTrac, which compiles data on foreclosures.

That was about a third of North Carolina's statewide rate of 9.5 foreclosures per 1,000 households, which in turn was lower than the national rate of 17.7 per 1,000.

But some national and local experts in the field say it is possible the worst is yet to come as economic problems deepen, credit tightens and rates on adjustable rate mortgages reset, creating higher mortgage payments for homeowners.

'Time bombs'

"There are some time bombs out there," said Victor Moore, a financial adviser for OnTrack, the consumer credit counseling agency serving WNC. "It looks like (the increase in foreclosures) will go beyond a one-year event."

The 2.2 million home foreclosures in 2007 nationwide was two-and-a-half times the number in 2005. Foreclosures more than doubled in North Carolina over the same period and rose about 60 percent in WNC.

Local figures suggest there may have been a slowdown in foreclosures in March, but the number of foreclosures in WNC for the first three months of the year was still up 20.3 percent over the first quarter of 2007.

The trend poses serious problems for families affected directly and their neighbors.

The family loses a place to live and an investment and is set back for years, said Al Ripley, counsel for consumer and housing affairs for the N.C. Justice Center, a generally left-leaning activist group.

"That is a scar that's going to be carried on that family for at least a generation," he said.

Plus, "The community that that family lives in is also harmed," Ripley said. "When there's one foreclosure, every other property around it loses value as well."

How it happened

The causes of the problem locally and nationally are similar: Lenders lent too much, borrowers borrowed too much, and when what had been a spectacular upward climb in home values finally faltered, or a

borrower suffered a financial reversal, both sides were left exposed.

“People got used to — on both sides of the ledger — thinking that home prices are always going to go up,” said Mark Pearce, North Carolina’s deputy commissioner of banks.

The debt trap

Rising values helped lenders loosen their standards for making a loan, partly on the theory that if a borrower had problems, the home securing it would still be worth more than enough to repay the mortgage once sold. Home buyers got into loans with unfavorable terms or continued to take on debt in the form of home equity lines of credit, often to pay down other obligations like credit card debt.

“Consumers took out loans they could not afford,” Moore said. “I do see some cases where consumers have overspent on other debt ... used the home as an ATM without having done their budget first to see whether they could afford it.”

In some cases, lenders or mortgage brokers pushed products with unreasonable fees, rates or broker commissions. In many cases, those involved don’t appear to have considered what might happen when the rate on an adjustable mortgage jumped up in a couple of years.

“We’re seeing some loans that were illegal, and we’re seeing some loans that were just bad loans but not illegal. People trusted their mortgage professional — and I use that term loosely,” said Celeste Collins, executive director of OnTrack.

Ripley says research shows that “as many as 20 percent of the people in the subprime market were really prime borrowers” who would have qualified for less expensive mortgages.

“The lenders really set it up” in some cases so that adjustable rate mortgages, or ARMs, were hard for borrowers to resist, said mortgage broker Kent Wolff, owner of Mountain Lifestyles Mortgage.

“If you had someone with extremely damaged credit ... they’d say, ‘Well, congratulations, you’re approved. Your rate on (an ARM) is 8.5. Your rate on a 30-year fixed (mortgage) is 11 percent,’” Wolff said. For many with financial difficulties, the lower rate was too tempting, even if it was much more costly in the long run.

Wolff said his approach is to get a client the best deal he can so as to build a long-term relationship. However, he said, it is “absolutely, positively correct (that) there were a large number of less scrupulous brokers” just looking to make a quick buck on a loan.

Some of the recipients of these loans are showing up on the doorsteps of OnTrack looking for counseling, or even at Eblen Charities, which helps families in financial straits.

“We’re seeing a number of new folks, new families coming in” who are having mortgage problems, said Bill Murdock, Eblen’s executive director. “Some have lost their jobs, and with the economy the way it is, expenses are up. Some of them have had an illness.”

Local differences

North Carolina has been somewhat ahead of the curve when it comes to state regulation of the mortgage industry, and some observers say that has reduced the extent of the problem in the state. The state passed a law to curb predatory lending in 1999. Pearce said it was the first of its kind in the country.

The General Assembly also approved measures last year to make it more clear that mortgage brokers have an obligation to attempt to put borrowers in loans that are matched to their ability to pay and took other steps to tighten mortgage laws.

Not everyone is convinced all of the measures have worked as planned. Wolff said he sometimes is unable to help a borrower with a high-rate mortgage refinance into a cheaper loan because the new loan

carries a higher rate than new rules appear to allow.

But Pearce said the state has a better record in regulating the process than many of its peers.

At least as important in limiting the number of foreclosures have been the state's and region's less volatile economies and housing markets. Unemployment rates in the Asheville area have generally been lower than those in the state and nation.

Fewer swings here

And home values in the region and state didn't see the same dramatic ups and downs those in troubled markets in places like California and Florida did.

For example, values rose a relatively sedate 0.9 percent between the third and fourth quarter of last year in both the state and region — but that was much better than the 1.3 percent decline seen nationwide or the 1.7 percent drop in Florida and 3.1 percent decline in California.

The rapid rise in some markets encouraged some homeowners to borrow more and more against the value of their homes. When those values fell quickly, some found themselves what real estate professionals call “upside down” — owing more on their home than the home was worth.

And in some markets, demand has fallen so much that homes simply aren't selling at almost any price, meaning even some homeowners who were more moderate in their borrowing may still be stuck with a home they can't sell when other financial problems arise.

The number of homes sold in Buncombe County has been declining since fall 2006, and some people attempting to sell to avoid foreclosure have yet to adjust to the new reality, said Charlie Giezentanner, owner of Asheville Realty & Associates.

But he and Bill McMannis, broker in charge for Coldwell Banker Kasey & Associates' South Asheville office, said there is still enough demand for homes that homeowners who recognize their situation early can do something about it.

By and large, “People can sell their home and get out of debt,” McMannis said.