

A Bane Amid The Housing Boom: Rising Foreclosures

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PHILADELPHIA -- To walk Thayer Street in northeast Philadelphia is to count, door by door, the economic devastation afflicting a working-class neighborhood. On a single block, 18 of the 42 brick rowhouses have gone into foreclosure in the past three years. There's Marciela Perez, who fell ill with cancer, lacked health insurance and stopped making mortgage payments. Barrel-chested Richard Hidalgo, who got divorced and could no longer make his monthly nut. And Mike O'Mara, a rawboned and crew-cut truck driver who took on too much debt, lost his job and fell behind on his mortgage.

"Mortgage companies convinced us to refinance, and each time our bill went up," O'Mara said as he surveyed his narrow street from his shaded front porch. "You fall behind and they swoop down on you."

Philadelphia, its suburbs and indeed much of Pennsylvania have experienced a foreclosure epidemic as low-income homeowners take on mortgage debt they cannot afford. In 2000, the Philadelphia sheriff auctioned 300 to 400 foreclosed properties a month; now he handles more than 1,000 a month. Allegheny County, which includes Pittsburgh, had record auctions of foreclosed homes, and officials speak of a "Depression-era" problem. The foreclosures fall particularly hard on black and Latino families.

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Cynthia Boyd 42, is barely holding on to the house she bought in Philadelphia. Boyd, who had problems making her mortgage payments after she became sick and had family problems, tried unsuccessfully to file for bankruptcy. (By Barbara L. Johnston For The Washington Post)

For some American homeowners, the greatest housing boom in U.S. history has delivered riches. They repeatedly tap their homes for equity and use the cash to purchase granite countertops, a BMW, even a trip to the Super Bowl. But there's a dark side -- a sharp rise in foreclosures that is destroying the single greatest generator of personal wealth for most Americans.

Foreclosure rates rose in 47 states in March, according to Foreclosure.com, an online foreclosure listing service. The rates in Florida, Texas and Colorado are more than twice the national average. Even in New York City and Boston, where real estate markets are white-hot, foreclosures are rising in working-class neighborhoods.

Virginia, Maryland and the District have relatively low foreclosure rates -- analysts say troubled owners in those booming markets can still sell their homes before facing foreclosure.

Should the nation's housing bubbles deflate, as many economists and federal officials expect, the foreclosures could prefigure a national crisis. Americans now shoulder record levels of housing debt -- more than 8 percent of homeowners spend at least half their income on their mortgage.

"We are clearly seeing a spike in foreclosures in a number of our major urban areas," said Julie L. Williams, acting U.S. comptroller of the currency, whose agency regulates the nation's banks. "It can lead to a downward spiral for neighborhoods. If we are not careful, the American dream can quickly turn into the American nightmare." A recent study in Chicago found that rising foreclosures, and attendant social dislocation, fuel increases in crime rates.

State and federal regulators place much of the blame for the foreclosure problem at the feet of mortgage brokers and bankers, who have crafted ever-riskier ways for Americans with poor credit to buy homes. Interest-only and adjustable-rate mortgages account for 63 percent of new mortgages.

But many policymakers say the rise in foreclosures leads to a larger question: Is the push to boost homeownership -- successive presidential administrations have strongly promoted it -- backfiring? As home prices and personal debt rise to record levels, they note, homeownership has become an albatross for millions of Americans, destroying rather than creating wealth.

Officials at Fannie Mae, the federally chartered mortgage giant designed to expand homeownership, suggest that the solution lies with more counseling and fine-tuning of mortgages for lower-income families. But the Pennsylvania Banking Department is skeptical. It commissioned a study of 14 counties -- urban, suburban and rural -- and found that foreclosures had spiked in each county in the past four years.

"We've had a national agenda that's putting people into homeownership who are not ready for it," said A. William Schenck III, Pennsylvania's secretary of banking and a former bank president. "This is a fact that the nation must deal with unless we want to wreck the credit of a lot of middle-class Americans."

A Rude Awakening

Six years ago, Cynthia Boyd, 42, signed mortgage documents and lived a dream. The food aide at St. Christopher's Hospital for Children had taken ownership of a three-bedroom rowhouse in the Olney neighborhood of Philadelphia.

"This was the first house I'd ever owned," she said. "I didn't think it'd ever happen."

Then Boyd got sick and had family problems. She fell down a mortgage hole. She asked the original mortgage company to cut her a break, but it had already sold her mortgage to another lender. She tried -- unsuccessfully -- to file for bankruptcy in hopes of forestalling foreclosure. Soon her monthly payment doubled because she faced penalties for falling behind. She also owed \$10,000 in back payments and attorney fees. Then the sheriff's office added a charge for processing the foreclosure: \$4,000.

Boyd felt like curling into a fetal position. "I was fighting so hard to save my house," she said. "I just kept thinking to myself: You're going to lose your house." For now, she is holding on to the house, but just barely.

Stories like this are heard again and again in Philadelphia. "When a lot of homeowners get into trouble, it doesn't take long to turn into big trouble," said John Dodds, director of the Philadelphia Unemployment Project.

At first glance, the high foreclosure rates in Pennsylvania seem paradoxical. The average Pennsylvania homeowner has one of the highest credit scores in the nation, saves more than the average American, and is less likely to be unemployed or divorced.

But the Reinvestment Fund, a Philadelphia-based think tank, analyzed 22,979 foreclosures for the state Banking Department and found a more problematic profile. Those homeowners, most of whom are blacks, Latinos or working-class whites, live close to the economic margin.

They have low incomes and little or no health insurance -- 40 percent of those who sought emergency foreclosure help cited medical costs as the cause of their distress.

"For lots of these folks, homeownership is a dangerous, precarious existence," said Ira Goldstein, policy director for the fund. "Foreclosures can become like a contagion in these neighborhoods."

Few of these homeowners were tutored in home buying, and 70 percent relied on "subprime" mortgage brokers, which specialize in buyers with bad credit and charge interest rates between 8 and 12 percent, far above market interest rates of 6 percent or less.

Said Williams, the acting comptroller of the currency: "We've produced a new class of lenders willing to take on riskier and riskier borrowers at a very high price. Many of the products are nothing more than time bombs."

On average, at-risk Philadelphia homeowners purchased their homes in the mid- to late 1990s and faced a foreclosure filing four years later. Benigno Diaz, 55, was one of them. He cleans floors at the Philadelphia airport every night. A few years ago, he hurt his knee and went on disability -- which paid 60 percent of his annual \$28,000 salary. He fell behind on his home loan.

His mortgage company demanded that he make double payments to catch up. He couldn't manage that. Then he found his house was on a foreclosure list. "I'm like, wow, are you kidding me, man?" Diaz said. He never bounced a check, he said -- "I'm just two months behind." He is hanging on for now.

Irv Ackelsburg, a lawyer with Community Legal Services in Philadelphia, sees people like Diaz every week. They come in with folders stuffed with papers and panicked expressions.

"You see these people come in with huge costs and health problems and it breaks your heart," he said. "A lot of time you have to tell them, 'You're going to lose your home.' "

Hard Times in the Suburbs

Pennsylvania's foreclosure problem is not just an urban phenomenon. Montgomery County contains a genteel stretch of suburbs north of Philadelphia. But from 2000 to 2003, county officials recorded almost 5,000 foreclosure filings, a 14.6 percent increase. Arline, Woodland and Lindbergh avenues run through Abington, a pleasant lower-middle-class town with ranch houses and cherry trees, children's slides and neatly tended gardens. On each of these blocks, three or four houses have gone into foreclosure in the past four years.

Unlike those in northeast Philadelphia, the houses are easily resold -- the foreclosed-upon homeowners tend to simply fade away. "We bought this in a foreclosure auction a year ago," Becky Morrison, a mother of three, said as she stood in the doorway of her house in Abington. "We rented it back to the previous owner. She was pretty sick -- I think she had trouble with her bills. I'm not sure where she went."

Losing a home is particularly destructive of personal wealth. A foreclosure often costs upward of \$10,000 in various legal, sheriff and bank fees. And people who have gone through foreclosure end up paying more for insurance and credit card interest and can get turned down for jobs that require good credit.

Fannie Mae, the home loan giant, has devised several programs to help distressed homeowners. It also has started its "American Dream Commitment," which aims to drive the percentage of homeowners still higher. Spokesman Alfred King acknowledges that many lower-income homeowners are experiencing trouble but says his company has no plans to temper its homeownership push.

"Sure, some people are being done a disservice when they get mortgages when they are not ready for it," he said. "But the desire for ownership is there. And there's compelling evidence that there's probably a mortgage product that works for them."

But few of those who work with the tens of thousands of distressed low-income homeowners in Pennsylvania see much evidence to support that proposition.

Philadelphia Sheriff John D. Green has a front-row seat as these dramas play out. In mid-June, he will auction another thousand or so foreclosed homes. "My staff and I watch the suffering every day," he wrote recently in a letter to residents posted on his Web site. He said they "witness the heart-wrenching scenes as families lose their primary means of wealth building and face eviction."