

[ajc.com](#) > [Business](#)

Mortgage crisis hits home

By [CARRIE TEEGARDIN](#)

The Atlanta Journal-Constitution

Published on: 09/07/07

Just back from a July family vacation, Michele Bearden decided to catch up on the mail. The first envelope in the stack contained a letter from a real estate investor and a copy of a tiny newspaper notice.

[\[Submit your comments below. \]](#)

The wife and mother from suburban Gwinnett County stared in disbelief at the clipping: It announced that her house was in foreclosure. Bearden's lender planned to sell the family's home on the courthouse steps on the first Tuesday in August – just a few weeks away.

"That's how we found out," said Bearden, who for months had been locked in a conflict with the company that handles her mortgage payments.

Thousands of homeowners across Atlanta are facing the same dreadful prospect of losing their houses, the result of an epidemic of foreclosures moving through virtually every corner of the metro area.

The number of foreclosure sales scheduled for metro Atlanta properties tripled between 2000 and 2006, according to data supplied by Equity Depot, a private Atlanta company that provides foreclosure information to businesses.

More than 65,000 properties in 13 Atlanta counties faced foreclosure proceedings since January of 2006. In both July and August of 2007, properties scheduled for foreclosure in the 13 metro counties hit an unprecedented level: 5,000.

The uptick in foreclosures is tightly tied to another trend: the spread of subprime lending across the region. A high-interest, subprime loan financed one in every four home purchases in metro Atlanta in 2005, according to a Journal-Constitution review of federal mortgage lending data. In Georgia, subprime mortgages are nine times more likely than prime mortgages to be seriously delinquent or in foreclosure.

A real estate crisis caused by widespread mortgage failures is rippling through the country. Struggling Midwestern states have the highest foreclosure rates, and foreclosures are growing faster in Nevada, California and Florida than anywhere else. But Georgia has a serious problem, too. Only four states – Indiana, Louisiana, Michigan and Mississippi – had a higher rate of past-due mortgages than Georgia did in the second quarter of this year, according to a report released this week by the Mortgage Bankers Association.

The subprime mortgages that blanket the Atlanta region act like a foreclosure time bomb. That's because many families who opt for a high-interest, adjustable-rate mortgage qualify for the loan based on low payments available for the first year or two. Some families end up in trouble when a higher interest rate increases their monthly

payment.

Many Atlantans believe they are immune to the effects of the mortgage meltdown. But even those in no danger of default are taking a hit. That's because every foreclosure pulls down the value of nearby properties. Houses become harder to sell. Refinancing becomes difficult, if not impossible, for many. Local governments may even be hurt, since property taxes are based on property values.

And we haven't even hit bottom yet.

"All of the projections are that it's only going to get worse in the next three months," said Dan Immergluck, a Georgia Tech associate professor who is an expert on foreclosure issues.

Poor neighborhoods hit hardest

The areas of metro Atlanta hit hardest by foreclosures are the same parts of town where subprime lending is most common, according to a Journal-Constitution analysis of foreclosure trends and federal mortgage lending statistics.

Neighborhoods in southwest Atlanta, south DeKalb and Clayton County have the highest rates of foreclosure in metro Atlanta. But virtually every part of the metro area has been significantly touched, including parts of south Cobb County and many neighborhoods throughout Gwinnett County. Thousands of properties facing foreclosure involve mortgages of \$300,000 or more, according to the data compiled by Equity Depot. Even in upscale Alpharetta, hundreds of properties have been scheduled for sale on the courthouse steps.

Kwan Straughn's former home was among them.

Straughn borrowed \$871,000 to buy and make improvements to an eight-bedroom, eight-bath home not far from Country Club of the South. Straughn said he used a broker he found online to arrange loans for his house and three investment properties. The process to buy the properties was quick and easy, he said, even though he had a bankruptcy on his credit history.

Straughn said he thought he was getting a 30-year mortgage. Lewis N. Jones, an attorney representing the lender, Utah-based Land Home Services, said the term of the loan was actually no more than a few months, a type of loan sometimes made to investors but rarely for families buying a residence.

Straughn said he tried to refinance, but was unable to because the balance on the mortgage ballooned to more than the home was worth. Straughn said his family was evicted from the house after the lender foreclosed and sold the house on the courthouse steps.

"It has completely ruined us," said Straughn, who is living with friends while he pursues a lawsuit against the lender.

High-interest subprime mortgages have become common even among those with fat paychecks. About one in eight borrowers with incomes of at least \$100,000 used a subprime loan to buy a metro Atlanta house in 2005, according to the federal mortgage loan statistics.

Nothing down

Thirty years ago, getting the keys to a house required an exhaustive process that included a 20 percent down payment and a thorough review of a borrower's income and debts. The down payment ensured the borrower had a major stake in the property and a verifiable income ensured that the loan could be repaid.

All that changed when Wall Street discovered how to bundle mortgages together in packages that could be sold to investors. The packages of subprime mortgages became popular because they offered investors hefty returns and, at the time, were promoted as relatively safe investments. "Wall Street had a strong appetite for these loans," said Rob Braswell, Georgia's banking commissioner.

With the demand so intense, lenders kept lowering their standards to bring in new business. Borrowers once deemed too risky were more than happy to snap up the deals.

No money for a down payment? No problem. The lenders set up "piggy-back" loans to cover the 20 percent borrowers used to put down.

Bad credit? No problem. The lenders simply charged you more.

Low income? No problem. Lenders set up adjustable-rate mortgages with low teaser rates and low monthly payments for the first year or two.

Don't want to hand over your W-2s or your tax returns? No problem. Many lenders routinely allowed "stated income" loans under which borrowers wrote down their annual income, but had to provide no documentation.

"There were some loan options out there that didn't make a lot of sense long-term," said J.D. Crowe, president of the Georgia Association of Mortgage Brokers.

Rising real estate values in most of the country allowed many homeowners with subprime mortgages to refinance to better loans after a couple of years. But that stagnant values have eliminated that option, leaving many borrowers stuck with their loan when their teaser rates end and mortgage payments dramatically increase.

Half of metro Atlanta foreclosure starts this year involved adjustable-rate mortgages, according to the data compiled by Equity Depot. Half also involved home purchases made recently — either in 2005 or 2006.

In response to the mortgage meltdown, lenders tightened mortgage standards almost overnight, making it impossible to get some loans that were readily available this spring. Some upper-income borrowers with good credit are being hit, too, especially those seeking a "jumbo loan" above \$417,000, the upper limit for Fannie Mae or Freddie Mac, the companies created by the government to guarantee mortgages.

David Fisher and his wife planned to start construction on a new house in Marietta this fall. But the cost of the jumbo mortgage they needed increased 1 percentage point in just 30 days. The project is on hold.

"Our decision was to wait a little while and see if the market turned to a more normal situation in the next 30 to 60 days," Fisher said.

Little protection in Georgia

The prospect of a foreclosure is financially and emotionally devastating for most families. And in few states is the process as brutal for the borrowers as it is in Georgia.

Unlike half the states, Georgia allows foreclosures to take place with no judicial or government oversight. And no state has a faster foreclosure process than Georgia. Most lenders wait until a borrower is several months behind before initiating a foreclosure. But once a lender starts the process, a house can be sold on the courthouse steps in as few as 37 days.

In Florida, lenders must wait four months to sell a house in foreclosure; in Ohio, seven months; in New York City, well over a year.

"It's ridiculous what they can do," said Michele Bearden, the Gwinnett County homeowner whose lender sought a foreclosure in August.

Bearden and her husband, Raymond, have two sons, ages 9 and 16. He works in construction and she works for the school system. They live in a small three-bedroom ranch house near Grayson that her husband's uncle built for the family in 1994.

"We're busting at the seams, but we love it," Bearden said. "We put in a pool and a hot tub and we've made it our own."

Bearden traces their troubles to a decision in 1999 to refinance their mortgage with a subprime lender. The mortgage was pooled with other mortgages and sold to investors.

Bearden said she has spent the last several months battling the company that manages their mortgage, Houston-based Litton Loan Servicing, over a variety of fees and charges, and consequently they've been unable to refinance. The Beardens believe that Litton has not properly applied payments made to their account. The company declined to comment, citing privacy concerns.

"It just astounds me that you can build a house and live there for 13 years and in a matter of weeks, somebody could come in and it's gone, they can sell it at the courthouse steps," she said. "It is amazing that they can come and do that without having to go see a judge."

The thousands of metro families facing foreclosure are there for a host of reasons. Some agreed to mortgages they couldn't afford. Others lost a job, got sick or got a divorce. A growing number saw their mortgages grow out of reach when the introductory rate expired on their adjustable rate mortgage.

The Beardens filed a court action themselves and the foreclosure sale did not take place in August.

Bearden said it's a lonely feeling to face foreclosure. But she said she has come to realize that even though few families discuss it openly, it's become a common struggle.

"It's not just the poor people," she said, "It's hitting everybody now."

-- Data analyst Megan Clarke contributed to this report.

Find this article at:

http://www.ajc.com/business/content/business/stories/2007/09/07/foreclosure_0909.html?cxntlid=homepage_tab_newstab#tagnamehere

Check the box to include the list of links referenced in the article.



The advertisement features a Delta SkyMiles credit card on the left, showing the card number 3759 3213 45 61008 and the name J.B. SMITH. To the right of the card is a blue button with the text "APPLY NOW" and a right-pointing arrow. The background of the ad shows a smiling woman with blonde hair looking at a laptop. The Delta logo is in the top right corner. At the bottom, a dark blue banner contains the text: "EARN UP TO 17,500 BONUS MILES WITH THE GOLD DELTA SKYMILES® CREDIT CARD. [Terms, conditions & restrictions apply.](#)"