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Article published Apr 8, 2007

Florida is 'ground zero' in drama

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Foreclosures in Manatee, Sarasota and Charlotte counties have doubled in the last year, and some experts think they will likely double again before the region and nation sort out the current mortgage morass.

The rate of foreclosure in Florida was double the national average in February, according to data provided to the Herald-Tribune by RealtyTrac, a California-based online marketer of foreclosed property.

The total foreclosures in process -- 2,221 this year, compared with 1,106 at this time in 2006 -- is the clearest symptom to date of Southwest Florida's painful hangover from the bubbly days of a heady housing market.

The phenomenon is being driven by a number of factors, but most prominently in this region by investors who got in over their heads during the boom of 2004-05, by first-time home buyers who likely did not have the financial wherewithal or credit to make a home purchase, and by people caught in the collapse of some area builders.

Florida is "ground zero" for the credit crisis -- RealtyTrac's statistics show the state with the highest number of foreclosures nationally at 19,144 -- and Southwest Florida is no exception, says Mark Zandi, chief economist for big Wall Street credit rating giant Moodys.com.

He points to the "effective failures" of some of the region's financial institutions -- most notably Coast Bank of Bradenton, which aggressively loaned to speculative home buyers during the boom and is now struggling with loans to customers of a failed St. Petersburg home builder.

Zandi said more small banks are likely to have similar problems. He is convinced that things are going to get worse before they get better, particularly with the rate of foreclosures in Southwest Florida.

"I would not be surprised to see it double again a year from now."

Zandi's "ground zero" description might be more apt than he knows.

There is a blast radius of foreclosures -- nearly a third of the region's total -- in an area within a 10-mile radius of the Sarasota-Charlotte county line, a Herald-Tribune analysis shows.

There are hot zones around Sarasota, Bradenton and northern Manatee County, but none so pronounced: Of the 2,221 foreclosures in process right now in the three-county region, 317 are in North Port and



STAFF PHOTO / JENNA ISAACSON

Maggi sisters Kathleen, left, 64, and Linda, 59, with their dogs Murphy and Cosmo, live on borrowed furniture in their North Port home. They will lose the home Monday.

NORTH PORT -- Sisters Kathleen and Linda Maggi don't know where they will sleep tomorrow.

The home they had built by St. Petersburg-based Construction Compliance Inc. at 2490 Altoona Ave. in North Port is in foreclosure. It will be auctioned off Monday in a Sarasota courtroom.

The mortgage holder is Bradenton's Coast Bank, and the loan was arranged by Tampa's American Mortgage Link.

The Maggi sisters -- Kathleen is 64, Linda is 59 -- have lived together all their lives and have no immediate relatives.

They contracted with CCI to build the \$167,000 home in July 2004. They were promised a completion by January 2005 by the now-defunct home builder.

The two women had good credit. They had inherited enough money from their parents to put \$9,000 down in a cash deposit.

The house was not delivered until February 2006. It was issued a certificate of occupancy, but the home had no heat or hot water. The kitchen was unusable because tile work had not been completed.

For three days, the sisters slept in their van in the garage with their three dogs.

During the 13-month delay, the sisters -- both with severe health problems -- were forced to live in a \$1,500 rental unit and store their personal belongings. They figure that the delay cost them about \$30,000. They also lost a \$3,500 deposit for furniture because their home was not ready in time.

The sisters said American Mortgage Link promised a fixed-rate mortgage with monthly payments of about \$1,000, but by the time they moved in, their loan documents -- on which the sisters claim

402 are in Port Charlotte.

Not coincidentally, those communities were a favored playing ground during the boom for investors, with housing that was cheap enough to manage for someone looking to make a quick buy and equally quick exit during the real estate run-up.

It also was the center of activity for a series of failed home builders, including Construction Compliance of St. Petersburg and Sarasota's Jade Homes and Avalon Homes. There are other builders doing business in North Port-Port Charlotte showing visible signs of trouble.

But foreclosures are a regional problem. During February, one out of every 406 Sarasota County homes had entered some stage, while in Manatee, it was one of every 523, and in Charlotte, one of every 694.

The region is better off than Florida as a whole, which has a rate of one for every 382 homes, but compares poorly to the national figure of one for every 884 homes.

The rise in Southwest Florida's foreclosure rate does not appear to be an aberration.

While the 2007 rate is double that of last year, it also is 82 percent higher than 2005.

The increases are statistically large because they started from a low base, but foreclosures locally and nationally are building as subprime buyers are driven from the market.

Subprime refers to a class of borrower with weak credit histories who would not qualify for standard mortgages.

Party on

As the three-year-long real estate boom wound down, mortgage lenders such as New Century Financial Corp. came up with a bad idea: Instead of tightening lending criteria as the markets became less liquid, they loosened them in order to keep the party rolling.

It did, at least for a time.

As late as 2006, many subprime lenders were making loans with little or no cash-down requirements to credit-challenged borrowers.

Those decisions are now coming home to roost across the nation.

"Not only are we going to see massive foreclosures in the market, but as you can see, the subprime lenders are falling out like flies," said Priscilla Gratton, a 20-year Sarasota mortgage banking veteran who recently left AmSouth to open her own shop, the Gratton Mortgage Group, in downtown Sarasota.

"There are so many mortgage originators out there whose only goal was closing a transaction."

their signatures were forged and facts falsified -- were amended to a much more expensive adjustable-rate mortgage. Their monthly payments rose to \$1,500.

They said the bank is trying to collect payments that should have been paid by CCI during construction, a story common among customers wrapped up in the saga of the failed St. Petersburg builder. American Mortgage Link and CCI have not returned phone calls seeking comment.

Kathleen Maggi lives on Social Security but her loan documents show a monthly income of \$8,500. Linda Maggi works at a Wal-Mart and her income also was listed as \$8,500 a month. They were identified as husband and wife on the loan.

Realizing that they could not afford the house, they listed it for sale a month after moving in. For a year, they have lived in the unfurnished house and have not had a single potential buyer despite the efforts of three Realtors.

"We've lost everything," Linda Maggi said. "We've sold everything, our jewelry, our parent's jewelry, the silverware, all of it.

"We thought this was our last house."

The sisters sleep in an empty room on borrowed beds.

The beds were picked up Thursday.

They have looked into moving into low-income housing, but there is no room and it might require them to give up their dogs or to pay a \$400-per-dog deposit on top of the first and last months' deposit -- money that they do not have.

They can't afford a motel and have no idea where they will sleep Monday night.

"Probably the van again," Kathleen Maggi ventured.

During the past year, Kathleen Maggi suffered an embolism requiring hospitalization and her sister had both knees replaced.

Neither have "really slept" in months, they say, and have had to forgo their prescription medications for months at a time.

Four years ago, they were homeowners with excellent credit. Tomorrow, they will be without a home for the first time in their lives.

Their credit is shot, and they are being hounded by debt collectors to the point they won't pick up the phone.

"You never think this will happen to you," Linda Maggi said. "I always thought God would give us a hand."

Too often, businesses making loans inflated incomes, fudged application data or simply did not tell customers the truth about the real costs, over time, of the loans they were being sold.

Particularly popular was the adjustable-rate mortgage, or ARM, which allowed some marginal buyers to get into a home for a couple of years before the rates reset, many times to unsustainable levels.

In the last six months, more than two-dozen subprime lenders have shut their doors.

The biggest player, New Century, filed for bankruptcy protection from its creditors last week.

It issued \$51.6 billion worth of subprime mortgages last year, second only to HSBC.

During the past 10 years, New Century underwrote as many as 4,000 loans locally, property records show.

Some portion of those and other subprime defaults could eventually wind up among already bloated real estate inventories.

"It appears that as subprime and FHA (Federal Housing Assistance) loans default at higher than anticipated rates, and lenders tighten their underwriting standards, we're going to continue to see a spike in the number of homeowners facing foreclosure," said James J. Saccacio, RealtyTrac's chief executive.

Fall-out from subprime

Some experts watching the unraveling of the subprime market think that lenders might foreclose on up to 2 million more homes in the next two years as defaults climb to about \$225 billion.

Within that time, about \$1 trillion in adjustable-rate mortgages will reset at higher rates. Of those, \$650 billion, or 65 percent, are in the subprime category, meaning that as many as one-third of subprime borrowers could default if predictions hold.

The likely fallout will be that the lending industry will tighten its standards, and that will prevent many without sterling credit from buying a home. That, in turn, would boost inventory levels at a time when Southwest Florida already has an unusually high number of homes for sale.

"Tougher lending standards imposed by the marketplace and the regulators are necessary, but we need to be mindful of overcorrection," said David Lereah, chief economist of the National Association of Realtors.

"Responsible lending practices are what the doctor ordered, not practices that cause a credit crunch," he said.

A crunch is something that Zandi, the Moody's economist, worries about, too. A scenario where prime borrowers are less able to buy property might be the greatest threat right now to the economy, he said.

Add to that problem the reality that many investors, particularly hedge funds and foreign banks and governments -- the traditional secondary buyers of mortgage-backed securities -- are increasingly out of the game, Zandi said.

Intervention and hot lines

In a sign of the times, a Miami-based nonprofit entity called the Florida Foreclosure Prevention Hotline was launched recently as a resource for homeowners facing the prospect of losing their homes.

Damara Cohn, a real estate agent who works with the hot line, considers herself a foreclosure workout expert.

If after all avenues have been explored and tried, from refinancing to forbearance, Cohn steps in to "help those people who are upside down in their loans or have no chance to sell their property.

"I take the most aggressive position possible with lenders and work with them in order to create a win-win situation for everyone involved."

What Cohn is talking about is called a "short sale," where a lender agrees to take less money than it is owed.

With the softness in the market, many banks and lenders are likely to be more amenable to that kind of arrangement.

"Most borrowers have no idea the alternatives they have available to them," Cohn said. "For some, however, they are in a position where the sale of the property is the only choice.

"Act quickly," she advises. "Once you know you are in an impossible situation with regard to paying the loan, take action.

"This will protect not only your financial interests, but can keep that foreclosure off of your credit report."

Some of the nation's largest banks also are trying to help borrowers avoid foreclosures.

CitiMortgage is contacting ARM borrowers months ahead of reset dates.

Bank of America is using predictive computer models to identify and reach out to potential problem borrowers.

The bank will work with borrowers, even to the extent of "re-underwriting" the mortgage at reduced interest rates, said Bob Caruso, Bank of America's national mortgage servicing executive.

"We want to keep customers in their homes."

Staff writers Maurice Tamman and Cindy Allegretto contributed to this report
