BANK TOWN

Part of a Yearlong Series

This year, Observer banking reporters Rick Rothacker and Binyamin Appelbaum are examining the Charlotte banking industry's influence on communities and the economy.

A 10% loan, a job loss, their first home gone

COUPLE: MORTGAGE RATE A BIG FACTOR

JOHN D. SIMMONS – STAFF PHOTO

Carolyn and James Robinson bought this house in Huntersville with a high-rate loan in 1998. Carolyn said the stucco walls reminded them of their old neighborhood in California.

By Binyamin Appelbaum
Staff Writer

James and Carolyn Robinson lost their home this spring.

The couple fell behind on their monthly mortgage payments and the lender foreclosed. A sheriff's deputy posted an eviction notice on their front door.

The Robinsons bought the house in 1998. It was their first home. They found it on a Sunday drive through a Huntersville subdivision. The kitchen was huge and the bathroom had a hot tub, Carolyn Robinson recalls.

They paid $171,000, which seemed like a comfortable price. James Robinson was making $7,500 a month as a supervisor for a local security company.

But the Robinsons took a mortgage loan with a 9.99 percent interest rate. They hesitated, but they trusted the expertise of their loan officer and didn't shop around. They put down $25,650 to buy the home.

On the day they closed, the average 30-year loan had a rate of 6.64 percent.

The Robinsons said the loan officer said they could refinance to a lower rate after a year. The loan officer called to remind them when the time came, they said.

But she convinced them to consolidate their debts into two loans instead of refinancing to a lower rate, they said. One loan carried an interest rate of 10.85 percent; the other, 13.9 percent.

And they say the broker didn't warn them they would also incur a $7,400 penalty for paying off their first loan early. A document disclosing the penalty was included in the paperwork with the original loan, but the Robinsons say they didn't remember it.

Three months later, James Robinson lost his job. He got another one after a few months; Carolyn started working, too. But the family's savings were depleted. They fell behind and never caught up.

In fall 2000, they filed for bankruptcy. Three years later, they filed again. In January, they missed a court-ordered payment and lost their home.

"I try my best to provide for my family, and what I had to provide for my family was a good income and good credit," James Robinson said, seated in a hotel room where he was living with his wife and three children while they looked for housing. "That didn't seem to be enough."

He said he should have spent more time learning about the loan process, and gone to a bank for a loan. But they had just moved to Charlotte from California, and Robinson said they followed their real estate agent's advice to the south Charlotte offices of M.P.S. Mortgage Co., an independent mortgage broker.

As a Marine Corps veteran, James Robinson was entitled to a government-guaranteed loan with no down payment. These loans tend to carry market rates.

But M.P.S. Mortgage didn't sell government-guaranteed mortgages. And neither their real estate agent nor the loan officer who sold the Robinsons their loan told them they should go elsewhere, the Robinsons said.

Jeff Clayton, who owns M.P.S., said the Robinsons should have been told they could get a government loan somewhere else. He also said Robinson could have qualified for a market-rate loan without government help if he had waited until he could show that he had held the same job for a while.

But Robinson's loan officer sold him the best loan she could, Clayton said. Customers who are told to improve their finances and then come back often go to a different broker and get the loan anyway, he said.

"If the borrower can be qualified for a loan, should I be the one saying you shouldn't buy this house?" Clayton said.

Lenders say people receive higher rates because they are more likely to stop making payments on their loan. The Robinsons, on this logic, justified the reason they were charged a 9.99 percent interest rate.

But with a better loan, the Robinsons think they might still be in their house. With a market interest rate, their monthly payments would have been about $180 lower. And they would have saved the down payment, leaving thousands more in savings.

Instead, the Robinsons owned their home for six years and paid more than $100,000 in interest on their mortgage loans. Their equity increased over that period by about $5,000. Then they were evicted, and they lost that money, too.

The family is living in a rented home in the Charlotte area. They have emerged from a second bankruptcy and are working to improve their credit. They hope to buy a home again someday.

"I know the questions to ask now," Carolyn Robinson said.

James Robinson's Financial Profile in 1998

■ **Credit Score:** 648. People with scores above 620 often can qualify for market-rate loans. High-rate lenders typically serve people with scores below 680.
■ **Income:** $90,000 a year, or $7,500 a month.
■ **Debt**: $50,000, including car loans. Market-rate lenders allow borrowers to spend up to 36 percent of income on debts and housing. The Robinsons had $1,500 in monthly debt payments, leaving $1,200 for mortgage payments.
■ **Savings:** $25,000.

THE LOAN

■ **Rate**: 30-year fixed at 9.99 percent from New Century Mortgage.
■ **Down payment:** $25,650.
■ **Borrowed:** $145,350.
■ **Monthly payment**: $1,274 for principal and interest.
■ **Total interest for life of loan:** $313,542.

THE ALTERNATIVE

As a Marine Corps veteran, James Robinson was entitled to a government-guaranteed loan with no down payment.
■ **Rate:** 30-year fixed at about 6.64 percent.
■ **Down payment:** $0.
■ **Borrowed:** $171,000.
■ **Monthly payment:** $1,097.
■ **Total interest for life of loan:** $223,786.
■ **Total savings:** $25,650 down payment; and $178 a month, or $89,756 over 30 years.

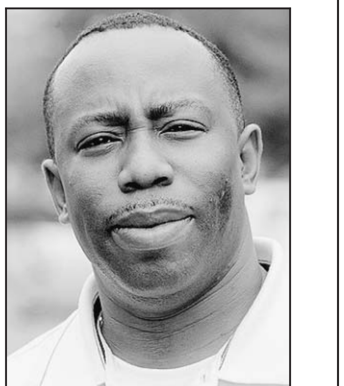
THE MORTGAGE BROKER

M.P.S. Mortgage Co. The company's owner, Jeff Clayton, said Robinson was offered a high-rate loan because he had a new job. Market-rate lenders want applicants with two years of steady employment. Clayton said M.P.S. does not sell VA mortgages. He said the loan officer, who no longer works with M.P.S. Mortgage, should have told the Robinsons they could get such a loan elsewhere. The broker made $2,907 on the first loan and $4,745 on a refinancing.

THE LENDER

New Century Mortgage Corp., one of the nation's largest specialists in high-rate lending, issued a statement saying the company does not consider race in lending decisions. Robinson's rate was determined by a computerized formula, the company said. Robinson's rate was particularly high because of his credit score, the company said, and because he did not provide documentation of his ability to repay the loan, such as proof of steady employment.

Another Marine, A Different Result



JOHNNIE RICHARDSON also bought a home in Mecklenburg County in 1998. Richardson is also a Marine Corps veteran. He said he had a credit score of about 650, and made about $45,000 that year.

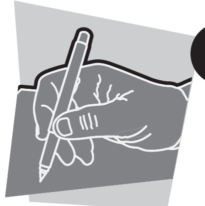
But Richardson works in the lending business and knows how it works. He took his certificate from the Veterans Administration to PNC Mortgage and borrowed $148,000 at an interest rate of 6.5 percent. He is one of 17 million veterans to use the VA program to buy a home since its inception in 1944.

A Consistent Trend

Studies and lawsuits over the last decade have focused on discrimination throughout the lending process. They show African Americans can be offered less help securing loans with lower interest rates, steered toward loans with higher interest rates and charged higher fees.

1 FINDING A LENDER

■ The Department of Housing and Urban Development in 2000 sent 1,152 pairs of blacks and whites with similar financial profiles to test the behavior of real estate agents in 23 cities. Blacks were told less often than whites that they could afford a home, and were offered less advice about securing a loan.
■ First American Bank settled a federal lawsuit in 2004 charging it redlined, or avoided, minority neighborhoods in Chicago. The bank denied wrongdoing, but agreed to open four branches in those neighborhoods and lend $5 million to minorities.
■ A 1999 study funded by Fannie Mae found the redlining by traditional lenders of minority neighborhoods in Atlanta remained basically unchanged despite outrage following the exposure of the pattern in a 1988 series in The Atlanta Journal-Constitution.



2 SUBMITTING AN APPLICATION

■ Blacks who visited conventional lenders were told about fewer products, and offered less coaching on how to apply for a loan, than whites with identical financial profiles, HUD found in a 2002 report based on testing by 250 pairs of blacks and whites in Chicago and Los Angeles.
■ Loan officers told upper-income blacks about fewer loan products than comparable whites, and sometimes quoted higher interest rates, said a 2004 study by the N.C. Fair Housing Center based on testing by 50 pairs of blacks and whites in five U.S. cities.
■ High-rate lenders owned by market-rate lenders referred whites to their market-rate parent more than blacks with similar financial profiles. The finding came from a National Community Reinvestment Coalition report in 2003 based on testing by 48 pairs in six cities.

3 JUDGING THE APPLICATION

■ Black applicants for mortgage loans in the Boston area were 60 percent more likely than whites with similar financial profiles to be rejected by lenders, according to a 1996 study of about 3,000 applications by the Federal Reserve Bank of Boston.
■ Deposit Guaranty National Bank of Jackson, Miss., settled a federal lawsuit in 1999 charging it allowed loan officers to reject blacks already approved by a computerized system. The bank denied wrongdoing, but agreed to change business practices and pay $3 million to customers.

4 THE BROKER'S FEE

■ Mortgage brokers charged higher fees to black customers than white customers by an average of $474, according to a 2003 study by a Harvard University Law School professor examining more than 3,000 loans made by three companies.
■ Delta Funding Corp. settled a New York state lawsuit in 1999, and a federal lawsuit in 2000, charging it allowed independent brokers to impose higher fees on loans to black females than to white males. The company denied wrongdoing, but agreed to change business practices and pay $12 million to customers.

TEXT BY BINYAMIN APPELBAUM – STAFF WRITER DAVID PUCKETT – STAFF

Market-rate home loans elude Hispanics

By Binyamin Appelbaum
Staff Writer

Hispanics also struggled to get market-rate home purchase loans last year.

The largest lenders charged Hispanics a high interest rate twice as often as whites, the Observer found.

Disparities were largest in California and the Southwest, and in New England and the Northeast.

Hispanics encounter some of the same barriers as African Americans. Studies show they can face discrimination; on average they are more likely to have financial problems; and they are less knowledgeable about the home buying process.

Community advocates say the largest problem, however, is that traditional lenders have only recently started seeking Hispanic customers.

"There's been a real breakdown in the market," said Janis Bowdler of the National Council of La Raza, a Washington-based advocacy group. "We want prime institutions to start incorporating the needs of the Latino community into their everyday business plans."

Last year, 14 percent of Hispanics who received home purchase loans in communities across America were charged high rates, compared with 6 percent of whites.

The disparity in the Charlotte area was similar, although the number of Latinos buying homes is still small. Fewer than 5 percent of home loans in the Charlotte area went to Latinos last year.

Cultural barriers play a role, experts say.

Many Latinos come from countries where distrust of banks is ingrained. More than a third don't have bank accounts, studies show. About the same share have little or no credit history of repaying past loans.

People without a credit history cannot easily qualify for market-rate loans, but they can still get high-rate loans. As a result, many Hispanics pay more for loans simply because they don't have a relationship with a bank.

Some forgo home ownership. Only 47.4 percent of Latinos owned their home in 2004, according to the Harvard University Joint Center for Housing Studies. That trailed the black home ownership rate of 49.7 percent.

La Raza wants lenders to use other means of assessing a borrower's reliability, such as history of paying utility bills.