Ambitious home loan now a source of regret

Facing foreclosure on a 10.5% loan, woman wishes she planned better

By Binyamin Appelbaum
Staff Writer

Kwanza Smalls found the brick split-level in a supermarket circular in January 2000.

She had moved with her husband and two kids to Charlotte from Macon, Ga., the previous summer after finishing a graduate degree in public administration. They were living in a northeast Charlotte apartment.

Smalls

"What I saw was when I left my apartment, the madness and the trash and the kids running around," she recalled. "And then when I pulled into the driveway of this house, I fell in love."

All she needed was a loan.

The first mortgage broker she visited told her that she could borrow $75,000, based on what she could afford to pay each month.

But the home, located off The Plaza, cost $105,000.

So Smalls started calling other brokers. North Carolina Mortgage Funding had a large ad in the Yellow Pages. A broker there offered Smalls two loans totaling $110,000.

There were just three catches:

- The interest rate was 10.5 percent on the first loan and 12.5 percent on the second loan. The first broker had offered Smalls an interest rate around 8 percent.
- There was a lump sum "balloon payment" of $84,093 due on April 1, 2015.
- And Smalls paid the broker $5,450 in fees. Experts say a typical broker's fee is about 2 percent of the loan amount, or $2,200 in this case.

Kwanza and Melvin Smalls signed the papers and took the loans. They bought the home in March 2000.

"You forget about all that other stuff and you're just thinking I want to own my own home," Smalls said. "Your parents didn't do it, so they want you to do it. And you want to do it, too."

Smalls was not a candidate for a market-rate loan. She was working for BellSouth and her husband for Duke Energy. But they had little savings and Smalls, fresh from graduate school, had an abbreviated credit history.

North Carolina Mortgage Funding first declined to comment when contacted by the Observer. Later, the company said it would check its records but did not return repeated phone calls.

Smalls had stretched to take the loans. But she believed she could make the monthly payments of $919.98 on the first loan and $123.94 on the second. It turned out to be more than she and her husband could afford.

"Reality set in," she said. They had done a budget before they took the loans. "It all turned out to be underestimated," she said.

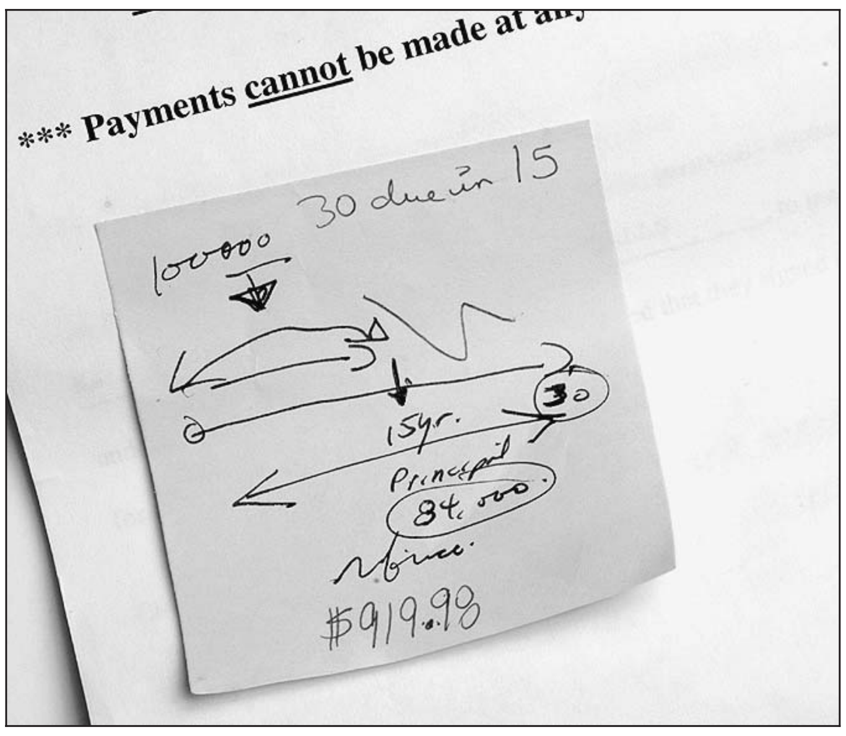
Smalls and her husband have worked steadily since coming to Charlotte. She is now an algebra teacher in a Charlotte public high school, and he works at a software company.

But only a year after closing on the home, the couple filed for bankruptcy. Now they are trying to fight off foreclosure.

Smalls shared her story and her financial documents with the Observer because she hopes others might learn from her mistakes.

Smalls said she should have waited and saved before buying the home. She said she should have studied the loan more carefully, and considered the consequences. But she said she assumed the broker wouldn't offer a loan she couldn't afford.

"We had the attitude that we were educated people and we were going to go buy a house," she said. "Now they basically can take my house any day."



T.ORTEGA GAINES – STAFF PHOTO

"I said, 'Oh, that looks like a football play, but that looks like a touchdown. So sure, no problem.' "

KWANZA SMALLS, DESCRIBING HER REACTION TO A POST-IT NOTE DIAGRAM OF LOAN TERMS DRAWN BY HER MORTGAGE BROKER

SERVICING, PACKAGING LOANS INCLUDED

Wachovia, BofA build ties to high-rate lending business

Banks dropped high-rate subsidiaries in recent years but still have industry links

By Rick Rothacker
Staff Writer

Wachovia Corp. and Bank of America Corp. both shed high-rate lending businesses a few years ago, but are still making money from the industry.

In 2000, amid a massive restructuring, Wachovia predecessor First Union Corp. shut down The Money Store Inc., the high-rate lender it had bought in 1998. First Union found the company wasn't as profitable as projected and was flush with bad loans.

A year later, Bank of America cited unsteady profits when it dismantled its EquiCredit high-rate unit, which it had built through acquisition.

Dropping these subsidiaries meant the Charlotte banks made few high-rate loans in 2004, an Observer analysis found. But Wachovia recently re-entered high-rate lending, and Bank of America has invested in a high-rate lender.

Wachovia's stake

Last year, Wachovia acquired Georgia-based EquiBanc Mortgage Corp., which offers high-rate loans in 13 states including the Carolinas, as part of its purchase of SouthTrust Corp.

SouthTrust does not report separate numbers for EquiBanc, but in 2004 the Alabama company issued 1,149 high-rate loans, or about 12 percent of its total.

About 36 percent of those high-rate loans went to blacks and about 17 percent to Hispanics. About 42 percent went to whites, according to an Observer analysis.

Wachovia spokeswoman Jennifer Darwin said the company plans to keep EquiBanc. She described it as a well-run company in the fastest-growing market in the consumer industry.

"It gives us an opportunity to explore another way to serve our customers," Darwin said.

Wachovia also kept a remnant of The Money Store. Renamed HomEq Servicing Corp., it collects and administers old Money Store loans, Wachovia home equity loans and loans made by other high-rate lenders.

HomEq last year was the seventh-largest subprime mortgage servicer, according to National Mortgage Servicing News.

Wachovia's capital markets arm also packages high-rate loans and resells them to investors, a process known as securitizing. In the first quarter, the company did not make the top 25 for issuers of subprime investment securities, according to Inside Mortgage Finance Publications of Bethesda, Md.

Bank of America's stake

Bank of America in 2003 acquired a stake in a California-based high-rate lender now known as OwnIt Mortgage. The bank is an investor in a private equity fund that bought out the company, previously known as Oakmont Mortgage.

In 2004, OwnIt made about 56 percent of its 1,640 loans to African Americans at a high rate, according to an analysis by New York-based consumer advocate group Inner City Press/Fair Finance Watch. Bank spokeswoman Julie Davis said the company has an investment in OwnIt, but doesn't run the business.

Bank of America packages high-rate loans for sale to investors. In the first quarter, the company was No. 18 among issuers of these securities, according to Inside Mortgage Finance.

"We do feel there is a place for subprime lenders," Davis, the bank spokeswoman, said. "They help provide credit to those who otherwise would not have access to credit."

Bank of America, however, does not condone "discriminatory, predatory or illegal practices" by mortgage lenders and has procedures to ensure mortgage loans with these characteristics are not securitized, she said.

Inner City Press' Matthew Lee criticized both banks' high-rate business during merger reviews, including Bank of America's pending purchase of credit card giant MBNA Corp.

"There's this idea that they have turned the corner," Lee said. "Not really." — STAFF WRITERS BINYAMIN APPELBAUM AND TED MELLNIK CONTRIBUTED

TODD SUMLIN – STAFF PHOTO

One Wachovia Center (left) and the Bank of America Corporate Center stand out in the uptown skyline. The banks made few high-rate loans in 2004.

He helps blacks get loans, even if at higher rates

News You Can Use

What a Mortgage Broker Does:

Sells loans and guides borrowers through the lending process.

Why Go to a Broker:

The National Association of Mortgage Brokers cites choice, convenience and expertise. Studies show brokers often provide lower interest rates than lending companies.

What a Borrower Should Know:

Brokers are not required to provide the lowest possible rate. They often can make more money by increasing the interest rate. Borrowers should seek estimates from more than one broker.

Brokers also make more money on larger loans. Borrowers should be aware that they alone are responsible for deciding how large a loan they can comfortably afford.

How the Broker Makes Money:

The borrower pays the broker. The average fee last year was 1.7 percent of the loan amount, according to a national survey of the industry by Wholesale Access.

Customers who want to pay a smaller broker's fee can ask the broker to increase the interest rate on the loan. In exchange, the lender will pay some or all of the broker's fee.

This is called a "yield spread premium."

Be aware that brokers can also increase the interest rate without a request from the customer. They still get the fee from the lender, but they don't pass it along to the customer.

The Department of Housing and Urban Development estimated in 2002 this type of yield spread premium costs borrowers about $3 billion each year.

How to Prevent Hidden Charges:

Fees paid by the lender to the broker are listed on the closing statement as "paid outside closing" or "POC."

Check your closing statement for such fees, which often are listed in a different place than other closing costs. Also, ask if your broker is receiving any such fees in exchange for raising your interest rate.

If so, the fee you pay the broker should be reduced by the same amount as any "POC" fees.

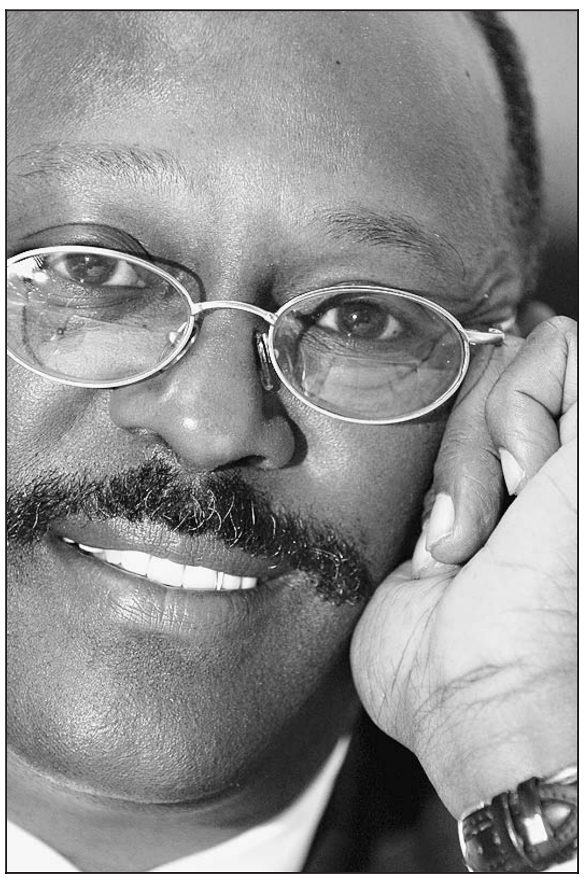
Who Watches Over the Brokers:

North Carolina passed a law in 2001 requiring people who sell mortgage loans to register with the state after passing an examination. The law also requires brokers to make a "reasonable effort" to secure a loan that is good for the borrower. Most states, including South Carolina, do not have similar requirements.

To file a complaint about a mortgage lender or broker, call the N.C. Commissioner of Banks at (919) 733-3016 or visit: https://www.nccob.com/online/cts/complaintOnline.aspx

Questions?

If you have questions about your mortgageloan, or about the lending process, e-mail obsbiz@charlotteobserver.com or write us at The Charlotte Observer, c/o Business News, Mortgage Questions, P.O. Box 30308, Charlotte, NC 28230-0308. We'll publish responses in a coming edition.



T.ORTEGA GAINES – STAFF PHOTO

"Good credit is a poor man's wealth," says independent mortgage broker Fred Warren.

Charlotte broker proud of his service, says families shouldn't be shut out

By Binyamin Appelbaum
Staff Writer

When Fred Warren joined NCNB in 1973 as a mortgage loan officer, he said the bank's mortgage staff included one other African American. He recalls watching black customers struggle to get loans.

Three decades later, Warren is still selling loans, but now he's self-employed. As an independent mortgage broker, he links borrowers with lenders for a fee paid by the borrowers.

Most of the people who come to his east Charlotte office are black, he said.

Most don't qualify for bank loans, he said.

So he arranges loans that carry higher interest rates.

"Which is worse," he asked, "trying to make a loan so a family can become homeowners, even if it is a little higher rate, or shutting them out?"

Independent mortgage brokers, who emerged over the last two decades, now sell up to two-thirds of all high-rate mortgage loans. Many high-rate lenders rely entirely on brokers to sell their loans.

Brokers often are members of the communities where they work. In black neighborhoods, African American brokers such as Warren provide customers unprecedented access to mortgage loans.

Warren, 60, works in a brick office on Albemarle Road.

Customers are referred by other customers, real estate agents and home builders. Lately, he also has tried some television advertising.

The process is like matchmaking.

Customers arrive with their personal financial documents. They sit with one of Warren's loan officers and discuss how much money they need. The employee calculates how much they can afford. Then the employee finds a lender willing to make the loan.

Fred Warren Mortgage works with about a dozen lenders, mostly specialists in high-rate loans. The companies send regular updates about loan terms and pricing – including any special incentives.

Once a loan is selected, an application is completed and submitted. Follow-up questions are answered. If the loan is approved, another round of paperwork must be prepared for the closing.

Generally, the process takes three to six weeks and nets Warren's company about 1.5 percent of the loan amount, he said.

Warren is proud of his business. He believes blacks have more access than ever to mortgage loans in large part because there are more blacks selling loans.

The walls of his office show that he is a proud member of Charlotte's black community: certificates that recognize contributions to the community, a poster from his college fraternity. All of his employees are African Americans.

He said he was surprised by the Observer's findings on racial disparities in loan pricing, particularly by how often high-income blacks get high-rate loans. After thinking about the numbers, he said he believed it resulted mostly from past discrimination and irresponsible behavior by borrowers.

He said blacks have easy access to credit for the first time, and many have misused the opportunity.

"We're the first generation of privileged blacks," he said. "I have a lot of friends and relatives that have not been responsible" in their use of credit.

He regrets that so many customers can't qualify for better rates, but he does not send customers away to save money or pay debts, he said. He's in the business of selling loans.

At the same time, he said he does not sell high-rate loans to people who can qualify for lower rates. Warren also owns a real estate agency, and he said he sends most of those customers to banks.

Warren believes some brokers do take advantage of customers, but he does not think it's a matter of discrimination. He said brokers are trying to make money and blacks often are less financially sophisticated.

"I think it happens more from greed than from discrimination," Warren said. "It don't matter what color you are.

"I hope I'm not being naive. I truly don't think I am."