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People move in and out often, Stewarts Crossing homeowners told the Observer. "We've had a lot of for-sale signs," says Amina Johnson, who bought her house in 2000. One in 3 houses have foreclosed in the neighborhood in northeast Mecklenburg County.

Foreclosures clustered in 10 Beazer neighborhoods

Clusters from 1A

foreclosures result. Renters move in. Crime can rise.

"It was a disaster," says Veronica Wilkes, who bought a house from Beazer in 2001 in the northwest Charlotte subdivision of Brookmere.

Beazer built 31 homes on her street. Thirteen have foreclosed.

"There was trash all over the streets, kids walking through your yard," says Wilkes, who now rents out her home because she can't sell it. "You could tell the homeowners - their yards were nice and pretty, and the other yards were terrible."

A story in Sunday's Observer charted the impact of foreclosures on Southern Chase, a Cabarrus County neighborhood where Beazer built 406 homes. Seventy-seven of the homes have foreclosed, a rate of 19 percent.

In a written statement, Atlanta-based Beazer originally said the foreclosure rate in Southern Chase was an anomaly.

When the Observer presented its findings about the 10 Mecklenburg developments with higher foreclosure rates, Beazer referred to its earlier statement. The company said its developments were marketed to first-time buyers, who tend to foreclose more often.

Beazer also said that it "is committed to providing quality homes of superior value and providing each and every homeowner with an enjoyable customer experience."

The company's CEO, Ian McCarthy, declined to speak with the Observer.

Government-insured loans

Beazer's troubled developments were backed by a silent partner: the federal government.

More than 70 percent of the buyers in the 10 developments used loans insured by the Federal Housing Administration. The FHA encourages mortgage lending to lower-income families by promising to pay the lender if the borrower does not.

In one of the developments, Back Creek Hollow in northeast Mecklenburg, 64 of 70 buyers used FHA-insured loans. Seventeen of those homes have since foreclosed, a rate of more than one in four.

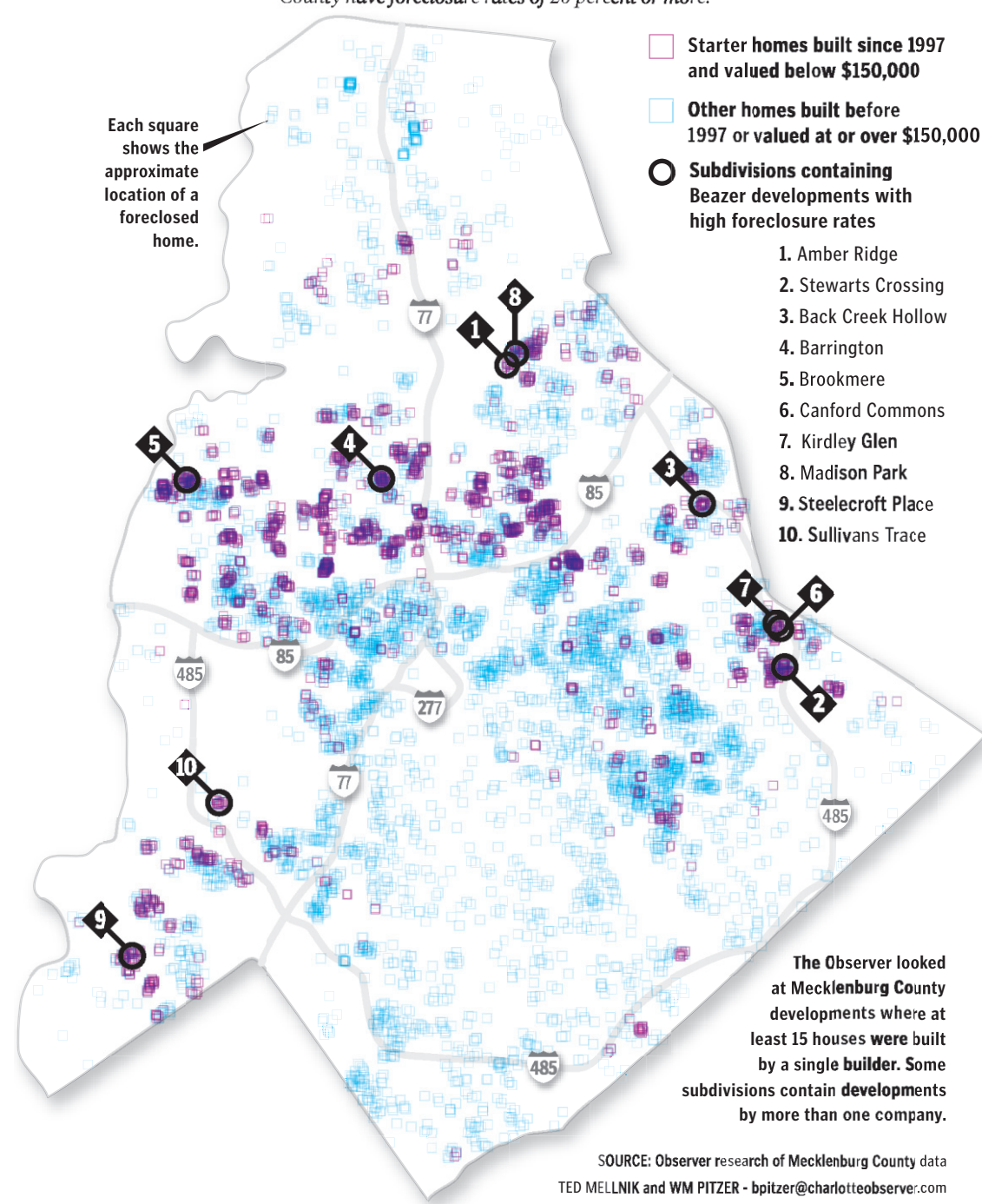
The largest source of FHA loans in the Beazer developments was Beazer itself.

A subsidiary called Beazer Mortgage acted as a broker, matching buyers with lenders for a fee of several thousand dollars on each loan.

The FHA loans that Beazer Mortgage arranged often were aggressive. The company provided down payments for most of its borrowers, leaving them with little stake in the homes. It also arranged loans with

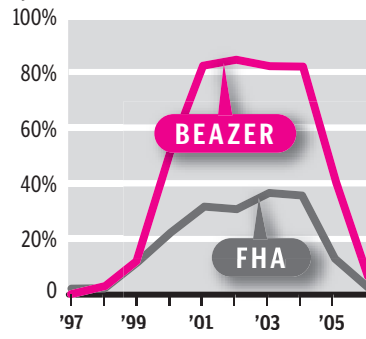
Clumps of Beazer Foreclosures

At least 10 Beazer Homes USA developments in Mecklenburg County have foreclosure rates of 20 percent or more.



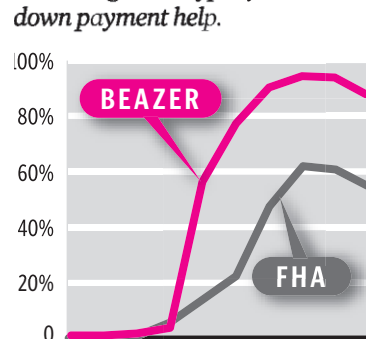
SOURCE: Observer research of Mecklenburg County data
TED MELLNIK and WM PITZER - bpitzer@charlotteobserver.com

BUYDOWNS: From 1997 through 2006, Beazer Homes USA helped with mortgage payments for 64 percent of its FHA borrowers in the Charlotte area. That compares with 20 percent of FHA borrowers in the area



SOURCE: Observer analysis of FHA data
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DOWN PAYMENTS: From 1997 through 2006, Beazer Homes USA provided down payments for 69 percent of its FHA borrowers in the Charlotte area. About 24 percent of FHA borrowers in the area got this type of down payment help.



SOURCE: Observer analysis of FHA data
WM PITZER - bpitzer@charlotteobserver.com

monthly payments that started low but rose sharply after the first and second years, a feature known as a buydown.

Both down-payment gifts and buydowns were associated with a higher risk of foreclosure, the Observer found.

Beazer and Eastwood Homes built on the same streets in Steelecroft Place, a subdivision

in southwest Charlotte. Eastwood built slightly more than half the subdivision's 360 homes; Beazer built the rest. The houses are intermixed, sometimes on alternating lots.

Twenty percent of the Beazer homes have foreclosed, compared with 8 percent of the Eastwood homes.

The prices were similar. The

Beazer homes have an average tax value of \$138,000; the Eastwood homes, an average of \$147,000.

The financing was different. Two-thirds of Beazer's buyers used FHA loans with low introductory payments that increased after the first and second years. About 5 percent of Eastwood's buyers used that kind of FHA buydown loan.

In a written statement, Beazer said that it followed all laws and regulations and that offering financial assistance to first-time buyers was a common industry practice.

The company also emphasized that it acts solely as a mortgage broker and that loans are ultimately approved or rejected by the lender. The company said buyers are informed of loan terms and sign documents at the closing table to indicate their understanding and acceptance.

Low cost, big problems

The county's foreclosure problems are concentrated in new neighborhoods with the lowest prices.

Derhyl Pruitt, a local real estate agent, said he tells first-time buyers, "If you can possibly stretch to pay \$180,000, that will eliminate

What Is a Foreclosure?

When a homeowner falls behind on mortgage payments, the lender can ask a court to seize the home and sell it to cover the debt.

Lenders asked courts in North Carolina to foreclose a record 45,500 homes last year, more than double the number in 2000.

Roughly half these filings end with an actual foreclosure. The remaining owners repay the loan by selling or refinancing, filing for bankruptcy, or striking a deal with the lender.

What It Means to You

Foreclosed owners lose their home, their neighborhood, their investment. Borrowing money becomes very hard and very expensive.

Some homes sit empty. Others become rentals. Communities are destabilized. Neighboring homes lose value. Crime sometimes rises.

Local governments lose property tax revenues. They also pay to process the foreclosure and for public safety issues associated with vacant buildings. Their average cost runs into thousands of dollars, according to a 2005 study by Harvard University researchers.

Contact Us

Lost your home? Struggling to hold on? Live in a neighborhood plagued by foreclosures? We'd like to hear your story. E-mail bappelbaum@charlotteobserver.com or call 704-358-5170.

the problems."

Beazer itself built some developments in slightly higher price ranges. Those homes are relatively untouched by foreclosures.

In Beazer's 13 developments with average tax values above \$150,000, less than 5 percent of homes have foreclosed.

In the 20 developments with average tax values below \$150,000, almost 18 percent of homes have foreclosed.

The Beazer development with the highest foreclosure rate was in the Avensong subdivision, in eastern Mecklenburg County.

Beazer built 155 homes in a section called Stewarts Crossing between 1999 and 2001. Fifty-two of those homes have foreclosed.

Avensong also contains a section of about 160 homes built by Colony Homes and sold at higher prices. Twelve of those homes have foreclosed.

Karen and Loren Pittman have watched with alarm as one-third of their neighbors fell into foreclosure.

The Pittmans moved to Stewarts Crossing in May 2000. They paid \$119,500 for a house with three bedrooms and 1,295 square feet.

Read the series on the Web at Charlotte.com

On Sunday, the Observer charted the problems of the foreclosure-plagued Southern Chase development in Cabarrus County.

Beazer Homes USA aggressively sold starter homes to low-income buyers in ways that made a high rate of foreclosures inevitable, an Observer investigation found. It arranged larger loans than some buyers could afford. That allowed it to include the cost of financial incentives in the price of homes.

The strategy was a financial success for the Atlanta-based home builder. But the neighborhood fell apart. Seventy-seven buyers have lost homes to foreclosure in a subdivision of 406 homes. That's about one in five, more than six times the national rate.

On Monday, the paper told how the number of foreclosures in Mecklenburg County has spiked to record levels since 2003, almost entirely because of foreclosures in starter-home subdivisions.

The Observer identified at least 35 starter-home developments in the county where 20 percent or more of the homes have foreclosed.

Coming Wednesday

Local, state and federal officials didn't track where foreclosures piled up and continued policies that encouraged starter-home construction.

Federal review

The Observer first reported in January 2006 on the high failure rate for Charlotte-area loans arranged by Beazer and insured by the Federal Housing Administration.

In response, the federal government reviewed a sample of loans arranged by Beazer's local office. This was completed in February 2006, but the Department of Housing and Urban Development, which administers the FHA program, refused to release its findings until last December.

The review found that Beazer in at least two cases had failed to document that borrowers could afford their mortgage loans, a violation of FHA rules. One of those borrowers has since foreclosed, and the other filed for bankruptcy to avoid foreclosure, the Observer found.

The review also found that Beazer charged at least five borrowers in the Charlotte area several times the maximum loan fees allowed on an FHA loan.

The review did not address how HUD allowed this to happen. And the affected borrowers were not notified.

HUD did request a response from Beazer. But two months after the report was completed, in April 2006, Beazer's Charlotte office surrendered its license to make FHA loans. HUD said the surrender was voluntary.

Beazer declined to comment. HUD says it will take no further action against Beazer.

And the department said Beazer still can make FHA loans to Charlotte-area borrowers through a different lending office.

"We still want people to be served," HUD spokesman Lemar Wooley wrote in an e-mail to the Observer.

— BINYAMIN APPELBAUM

They wanted a low-priced home so Karen could quit work and raise their children.

The next year, the county cut the tax value of the house by 11 percent to \$106,100.

The couple have watched renters move in. Karen worries about her safety and doesn't walk on some streets. Tax values are rising now, but the Pittmans aren't sure that will carry over to sales prices.

"I would never buy into a neighborhood like this one again," she said. "We had no idea anything like this could happen."

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