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foreclosing on the american dream | part of an occasional series

Builders often key players in high-risk game

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Tony and Marguerite Moreno talk about the pain of losing their Thornton home, built and financed by KB Home. "The biggest thing is, it was our home. Our home. Our kids' home. Our grandkids' home." (Post / Cyrus McCrimmon)

Carmen Pedrego said the builder assured her she could own a brand-new home for no more than her monthly rent.

But when she came to the loan closing, a surprise awaited her. No one was in the room except a stranger from the title company. And after Pedrego signed a first mortgage loan, the agent produced a second mortgage. They totaled 64 percent of the single mother's take-home pay.

Because she had already signed one contract, "I felt trapped, like I couldn't get out of it any more," Pedrego said. She signed the second and made two mortgage payments, she said, then filed for bankruptcy. This year, she became one of 11 homeowners in a small Greeley neighborhood who have lost new houses in foreclosure sales.

Mortgage Problems?

- **Foreclosure Hotline:** There are more than 25 government-approved, non-profit housing counseling agencies across Colorado that help homeowners in foreclosure or at risk of going into foreclosure. Counselors at these agencies help homeowners assess their options, contact and negotiate with lenders and get their finances back in order. To reach the counseling agency in your area, call Colorado's foreclosure hotline at 877-601-HOPE.
- **Hardship Loans:** The Colorado Rural Housing Development Corp. issues loans to qualified lenders. For details, contact René Holland at 303-428-1448, ext. 206 or rholland@crhdc.org.

In August, Weld County had the worst foreclosure rate in the United States. Many foreclosures came on new homes sold by aggressive builders to people who had no money for a down payment and no real estate agent representing them.

On one Greeley street, seven adjacent new homes have been foreclosed. In Pedrego's former neighborhood across town, dozens of families paid $40,000 to $50,000 too much for a new home, according to an analysis by David Kiekhaefer, a Greeley broker and builder.

That neighborhood "is primed for foreclosure," he said.

A computer-assisted geographic analysis of Weld and metro-area foreclosures by The Denver Post found many concentrated in new neighborhoods developed by local builders. Others clustered in new neighborhoods where national builders doubled as lenders. In one, more than 90 percent of foreclosures on the original buyers involved loans from the builder.

Too many new homes

A complex set of causes pushed Colorado's home foreclosure rate to the highest in the nation this year and Weld County to the highest in Colorado, real estate experts say: stagnant prices, too many houses for sale, 100 percent loans with rising interest rates, mortgage

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fraud, unregulated brokers, false appraisals and buyers reaching beyond their means.

They also say the building industry has contributed to Colorado's foreclosure epidemic.

Builders have been permitted to flood Weld County with a "terminal oversupply" of new houses that devalued existing homes, said Lou Barnes, a Colorado mortgage bank owner.

"Weld County has no functional zoning," he said. "It's simply open season."

He and others say some builder incentive programs, particularly those that require buyers to use an affiliated lender, also can raise the risk of loan defaults.

When builders "have a preferred mortgage company, you may not get the best interest rate," said David Berenbaum, executive vice president of the National Community Reinvestment Coalition, a consumer watchdog group. "Over the life of the mortgage, you pay substantially more for a home.

"People are being oversold today on homes," he said. "It's not uncommon to see more than 50 percent of their income go to their mortgage payment. The debt-to-income ratios are very troublesome."

On the street where Pedrego bought her house, a show-home sign advertises easy terms. "Good credit, bad credit, no Social Security approved," it promises in Spanish. "Zero percent down payment."

In this neighborhood, called Gateway Lakes, new homes purchased in 2005 are being foreclosed in 2006. That caught the attention of Kiekhaefer, who is renting homes in the neighborhood that he and a partner built and were unable to sell in the $180,000 range.

He found that two other builders in the same neighborhood, Mark Strodtman and Duane Zeller, were selling homes to Spanish-speaking families who were not represented by a real estate agent for as much as $245,000.

He gave The Post a list of 23 houses sold at prices he considered suspiciously high, all without a Realtor representing the buyer, and 31 other sales in the neighborhood listed by licensed real estate agents. The median price difference: $44,000.

Residents who bought houses from Strodtman said they were lured by offers of low payments, then learned at loan closings that their monthly costs would be hundreds of dollars higher than they expected.

"They tell me in one year you can refinance," said Librado Herrera, who does not read English and depended on Strodtman's sales assistant to explain the contract.

When he called a lender eight months later, he said he was told his loan had a prepayment penalty and his house wasn't worth $245,000.

Herrera is unemployed. His wife sews bags for a living. They have fallen behind on their $1,500-a-month mortgage payments and fear they must abandon their new home.

In one year, "I waste all my savings, and I have no more ways to save," he said. "I'm paying too much. I don't understand why the bank loaned the money. The value is not real."

Strodtman said his houses sold for higher prices because they are larger and more luxurious, with features such as cherry wood floors, granite countertops and finished basements. "If you figure by the square foot, they're pretty reasonable," he said.

He said he did not mislead customers about their potential mortgage payments, but some opted for bigger houses and others had marginal credit ratings.

"When people come in to buy a house, it depends on your credit," he said. "Your interest rate goes up or down by your credit."

Some buyers were attracted because "I take trade-ins for people," he said. Now, "I own a bunch of houses I can't get rid of."

Plunging prices

Foreclosure and real estate records show the prices of his Gateway Lakes houses plunged $50,000 or more after the original buyer lost them.

Pedrego's house, for one, sold for $63,000 less than the $239,000 she paid for it last year.

Strodtman said that happened because "the banks are dumping them" and some foreclosed houses "are trashed."

Zeller, the builder advertising homes in Spanish to buyers with poor credit and no Social Security numbers, said he does not speak Spanish and did not understand what the sign said.

Lenders can approve applicants without a Social Security number, but "that sign will come down," he said.

Zeller said his homes are not overpriced and he is not enticing buyers with false promises.

"I've got six homes for sale in there" that aren't moving, he said. "I'll sell them below cost just to get out of them."

Laura Mendoza, a real estate agent who listed some of Strodtman's homes in Gateway Lakes, said she withdrew because she could not find buyers at the builder's price.

"Could I get them sold? Huh-uh," she said. "I didn't want to stay out there. I didn't think the prices were right. Somehow they sold them. I don't know how."

Pedrego, an interpreter at the Greeley courthouse, said a Spanish-speaking sales assistant to Strodtman who now works for Zeller "was getting a lot of the Spanish people into this."

Pedrego doubted she could get a home loan. She was divorced, her credit rating was poor, and she had been turned down before.

"Somehow they qualified me. I have no idea how they did it," she said.

A year later, she has a foreclosure record and lives in a mobile home in Kersey.

Despite her divorce, "I was doing really good until I got into this," she said. "I wish I wouldn't have listened to them."

Too good to be true?

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These are some of the lures national builders dangled as the supply of unsold homes in metro Denver hit record levels this year.

Jon Goodman, a Boulder real estate lawyer, cautions that some of these freebies actually can increase the risk of a home loan default.

How? "It might better help people to understand what's going on if they call it a kickback. Some kinds of kickbacks cause more problems than others," he said.

The riskiest are those that don't help the value of the house. If a builder offers to pay off car or credit card debts or a down payment gift instead of lowering his price, the real value of the house may be less than the buyer's house debt - especially if the buyer opts for a 100 percent loan.

Buyers who use the kickback to keep their credit card debts lower may be financially stronger and "better able to make the mortgage payments," Goodman said. But "if the debtor uses the kickback to go on a trip or buy a car, then they've overpaid for a property and have typically larded it up with too much debt."

Goodman also cautions that builder incentives dependent on using an affiliated lender may not benefit the borrower.

"Anytime a builder purchase is financed by an in-house lender, it enhances opportunities for mischief," he said.

At the Colorado Housing and Finance Authority, homebuyers are taught to distinguish between builder incentives that increase the property value and those that do not. Incentives such as furniture and electronics are personal property.

"We exclude those," said Karen Harkin, an agency program director. "If you're paying off your car, you're essentially paying that debt back over 30 years."

The Post analysis found high foreclosure rates in several communities of one national builder, KB Home. In most cases, the loans for those homes came from KB's mortgage branch.

In a Northglenn neighborhood built by KB Home, 56 of the original buyers have been foreclosed. Fifty-one, or 91 percent, got their loans from KB's mortgage company.

In Kentfield, a Thornton neighborhood, 80 of the original buyers have been foreclosed. Seventy, or 87 percent, borrowed from KB's mortgage company. About half were foreclosed on their original loans, which KB sold to other lenders, and half refinanced before their foreclosures.

Nearly all the original loans were insured by the Federal Housing Administration, which collects fees from borrowers to cover losses.

Marguerite and Tony Moreno Jr. were among the foreclosed homeowners. They had planted shrubs and flowers in their front yard and were erecting a fence around their new house when the communications company that employed Tony went out of business.

For a year, he took whatever work he could find, then settled for a new job at half his previous salary. Marguerite managed to negotiate deferred payments on her vehicle, but they had no luck with the company that bought their home loan from KB's mortgage branch.

Tony said the KB salesman had told them "the financing has to go through us" and resisted his request for a Veterans Affairs loan.

"We wouldn't get in in the time frame we wanted. I would have to pay for all my own (loan) points," he said he was told.

Now they live in another KB home in Northglenn, paying a monthly rent that equals their previous mortgage payment. The owner wants to sell it to them, but the Morenos say they were told they would have to pay a 21 percent interest rate because of their foreclosure.

"It was hard for me to leave that home," Marguerite said tearfully. "The biggest thing is, it was our home. Our home. Our kids' home. Our grandkids' home."

Along the streets of Kentfield, some yards are festively decorated this month with blown-up Santas, electric reindeer and North Pole signs. Others display signs of distress: Exit One and Best Offer Realty, HUD home, Price Reduced, For Rent.

Four years after the houses were built, "there's only three or four original homeowners left," said Kyle Van Briesen, gazing down a block where half of 22 new homes were foreclosed.

Some KB homeowners say they borrowed from the builder's lender for closing costs or other incentives. Others felt they had no choice. In Kentfield, those who remain worry about declining neighborhood house prices.

"Our original plan was to be here for two years. We've been here for five, and there's no way we could get out now," said Caryn Theisen, who drives her children to an Arvada school 25 minutes away.

KB declined numerous requests for comment.

Last year, a Denver-based investigation of KB Home Mortgage Co. ended with a $3.2 million settlement that the Department of Housing and Urban Development called the largest administrative action ever by a review board against an FHA- approved lender.

KB Home was targeted because its FHA-insured loan default rates were "significantly higher than average," HUD spokesman Lemar Wooley said.

The settlement followed an investigation of alleged violations such as approving ineligible borrowers, approving loans based on overstated or incorrect income and failing to include all of borrowers' debts.

KB did not admit any wrongdoing as part of the settlement.

A neighborhood at risk

"Five or six years ago, this was cornfields." Matthew Revitte, a Greeley broker specializing in foreclosure sales, is driving through East Meadows, a neighborhood at the city's edge. Now, he said, "it looks like Chernobyl."

An eerie quietness pervades the neighborhood. Up and down the street, snow-covered sidewalks lead to vacant houses. Signs in windows warn the water is off and the property winterized. Before one, an unclaimed pile of belongings decays in the driveway.

On one long block, Revitte counts 14 of 40 houses with defaulted loans. A block over, foreclosure notices came to seven adjacent new houses, and only one of those homeowners managed to stay.

These were built by a local company, Lifestyle Homes, and sold at a time when it was easier to buy a house than rent one, Revitte said.

"The overwhelming number got in with no money down. Very few had reserves. Could they survive two months without a paycheck? No."

Maria and Saul Saldivar, who live next to the row of seven foreclosed houses, considered putting their house up for sale last summer. Their real estate agent told them not to bother.

They're unsure they could recover the $140,000 they paid nearly four years ago and the roughly $10,000 they spent finishing the basement.

"The houses haven't gone up in value," Maria Saldivar said. "When we bought it, they said, 'Finish the basement and the yard and you can sell it for $30,000 to $40,000 more in three or four years."'

Across the street, real estate agent Mark Llamas listed a house that went for $140,707 three years ago. After a foreclosure, it recently sold for $102,580.

When the houses were new, "I didn't do a lot in East Meadows," Llamas said. "I thought the prices were a little high."

Lifestyle Homes president Brad Clarkson said he feels sorry for all the families who bought homes and lost them in East Meadows. But "it's absolutely due to factors beyond our control," he said.

He attributed the foreclosures in Greeley to predatory lending, a mass layoff at the Swift & Co. meatpacking plant two years ago and an atmosphere of fear and uncertainty among immigrant families who bought many of the new houses.

"We had to stop building homes in East Meadows," he said. "We couldn't compete with the foreclosures."

If you're buying

Advice from real estate experts to new-homebuyers:

- If you're buying a new house and have questions about the asking price, bring a licensed real estate agent to represent you.
- Get a written good-faith estimate of your anticipated mortgage payments. If the terms don't match at the loan closing, don't close.
- Be wary of incentives that don't increase the value of your new home. If you get $30,000 to pay off credit card debts and your car, you're probably paying $30,000 too much for the house. That will make it hard to refinance or sell.