Faces of Foreclosure

People at risk of losing their homes span the social spectrum

Like a growing number of Utahns these days, she is struggling to keep her house. She is also among the many who feel a sense of shame to find themselves in such a perilous position, so much so that she asked that her identity not be revealed. A Salt Lake resident, she paid her bills and worked hard, spending 14 years in the retail business so that she could buy a home. But her fortunes changed due to some serious health problems, and she was swept into a scam. She fell behind on her mortgage payments and soon was at risk of losing her home to foreclosure.
"I got so far behind on my house because I couldn't afford it," she said. "It got so bad that I was getting phone calls from creditors, so I went and filed for Chapter 13 bankruptcy."

As the nation copes with the worst housing market in recent memory, thousands of people in Utah and nationwide are trying to avoid losing their homes. The foreclosure rise has struck people from across the social strata, including famed pitchman and television host Ed McMahon, who recently disclosed that his multimillion- dollar mansion is in foreclosure. They include people who are at risk of losing their primary residence, as well as builders and others who sought to profit from the housing boom and are having difficulty selling those homes now.

"We have a lot of middle and upper class that just bought way more house than they could really afford, or they got into a bad loan or they had credit issues, as well," said Stephanie Hanson, a housing counselor and education coordinator with Community Development Corporation of Utah, a nonprofit housing-counseling agency that provides help to people facing foreclosure.
"We've also had a lot of clients who really shouldn't have gotten the mortgage in the first place," she added. "They weren't credit worthy, and so they got into an adjustable rate, and they were delinquent before their rate ever adjusts due to their poor money management or an unforeseen job loss, illness or increased expenses."

A recent report from RealtyTrac, based in Irvine, Calif., showed Utah ranked ninth in the nation in the rate of foreclosure filings last month.

The four Utah metro areas in July all ranked among the nation's top 100 for the highest number of foreclosure filings. St. George ranked 17th in the report, the Provo/Orem area ranked 39th, Salt Lake City ranked 70th nationally and Ogden/Clearfield was 100th.

Jim Wood, director of the University of Utah's Bureau of Business and Economic Research, said Utah could be in for a state record for foreclosures next year.

Nationally, the foreclosure rate in the first quarter of 2008 was 2.46 percent, Wood wrote this month in a research paper. "The expectation is that within the next 12 months, the national foreclosure rate will increase to over 3 percent."

A foreclosure rate of 3 percent would put about 13,000 homes in Utah in foreclosure, nearly double the previous high of 6,800 homes in 2002, he said.
Utah's foreclosure rate will likely follow the national trend and rise to at least 3 percent by 2009, he said. Falling housing prices will leave some homeowners with little or no equity, increasing the risk of default and foreclosure.

"There is simply no compelling evidence from either historical trends or local market conditions that Utah will be able to avoid foreclosure rates that approach at least the national rate," he said.

The routes that people take to find themselves in foreclosure vary. The Salt Lake woman, who asked not to be identified, said that in July of 2006, her life took a sharp turn when she was forced to leave her retail job due to a debilitating medical problem.

"I went to the doctor and found out I had to have a severe back operation," she said. "It was hurting me to where I couldn't stand eight hours for work."

Following the surgery, she tried to return to work, but her employer would not modify her position and eventually laid her off. To make matters worse, in November 2006, she was diagnosed with a neck problem that also required surgery.

While recovering from the second operation, she fell one month behind on her mortgage. She is now on disability and hasn't been able to find full-time work for months. She said she briefly worked part-time, but her condition forced her to quit.
A short time later, she tried to sell her house. Some people, whom she had never met before, knocked on her door to ask about her house because, she said, they knew she was behind on her payments.

"They told me, 'Don't pay your house payment, because we're going to buy your house and rent it back to you,'" she said. They told her that eventually she would be able to repurchase the house.

She said she hoped that she could use the time to re-establish her credit and get back on her feet. "I was just naive and just believing that nobody could be that dishonest," she said.

But when she contacted the people four months later to check on the status of the purchase, she was told that they had changed their minds and were no longer interested in buying her home.

By then, she was six months behind in her payments. The bank that held her mortgage filed for foreclosure and was planning to sell her home. But the bank also suggested that she contact the Community Development Corporation of Utah.

"I had a date to sell my home and everything, but they stopped it when I went to CDC," she said.

The agency helped her work out a plan with her bank to modify her loan, which would allow her to keep her house.

Hanson said her agency gets about 20 new clients each month, with about 80 percent having household incomes that are below 80 percent of the area median income. For a family of four, the area median income is about $65,000, so below 80 percent would be below $52,000, she said, "definitely lower-middle class."

People get into difficulty for a variety of reasons, she said. Most of her foreclosure clients are struggling with the rising cost of living, as well as credit issues stemming from "bad loans." Many people received adjustable rate or interest-only loans because they couldn't qualify for conventional loans.
Wood said Utahns now have 50,000 subprime mortgages, and 70 percent of those mortgages carry adjustable rates that are resetting primarily in 2008 and 2009. Other factors that raise the risk of foreclosure are high loan-to-value, piggyback and interest-only loans.

Hanson said her financially troubled clients often were able to obtain financing when there were some fairly obvious warning signs that they were poor credit risks, which essentially set them up for potential failure, she said.

Her agency's foreclosure counseling has increased by about 35 percent in the past year, and the number of foreclosure inquiries has increased by about 60 percent, she said.

Penny Murphy, 66, of Salt Lake City, found herself in dire straits when she was unable to meet her mortgage payments following the sudden death of her mother in 2005. Murphy contacted the Salt Lake Housing Authority for help. The agency helped her restructure her loan, which lowered her payment by half, including taxes, insurance and a smaller interest rate.

Murphy said the restructured loan should allow her to remain in her house for the next 30 years. "I worked on this for so long, and they were the only people that were able to help me," Murphy said. "They saved my life."

Another Utah woman was not so lucky. She also requested anonymity for this article. After working 22 years for an airline at Salt Lake City International Airport, she fell victim to a scam. She inadvertently signed over title to her home to a company that promised to help her pay off an unexpected large debt.

She said her problems started in November 2007, when she incurred a $2,300 car-repair bill for a blown transmission. She said she didn't have the cash on-hand to pay right away, so she looked in a free newspaper she picked up at a convenience store for a source of financing.

The newspaper had an advertisement for "these places that pay your mortgage for you if you are late," she said. She contacted a prospective lender and explained that she wasn't late on her mortgage but that she was in need of a loan.

She said the person on the phone said that not only could they lend her the money, she wouldn't have to make a payment for one year. Soon after, she said two young men came to her home and asked to see proof of ownership.

When she went to pick up her loan check, she said she was given documents to sign. "In my mind, I'm thinking I'm signing for the $2,300," she said. "So I kind of barely read over the papers."

She took the papers home and put them in a jar, thinking that she had a year to pay off the loan, she said. A few weeks later, she realized that she had signed papers that transferred ownership of her home to a company called Last Minute Mortgage.
Devastated, she contacted an attorney to file a fraud claim.

"I could not believe that I was so stupid," she said. "I'm so embarrassed that I trusted people, and they took advantage of me."

She eventually called Community Development Corporation after falling two months behind on her mortgage. She now is working with the agency and an attorney to try to rectify her situation. No criminal charges have been filed.

Hanson recommends that people who find themselves behind on their mortgages develop a crisis budget.

"Your home is in jeopardy. You need to do whatever you possibly can," she said. "Have a yard sale, cut off cable, get rid of everything that is not a necessity until you can get back on your feet and bring your mortgage current."

Homeowners should contact a counseling agency like hers that is approved by the U.S. Department of Housing and Urban Development as soon as they find themselves in difficulty, she said. The agencies offer various services, typically at no cost to the consumer.

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