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PART TWO: The Reach of Redlining

Long-held Mistrust of Lenders Fueled Mortgage Crisis in Black Communities

By Mary Kane 8/21/08 4:31 PM

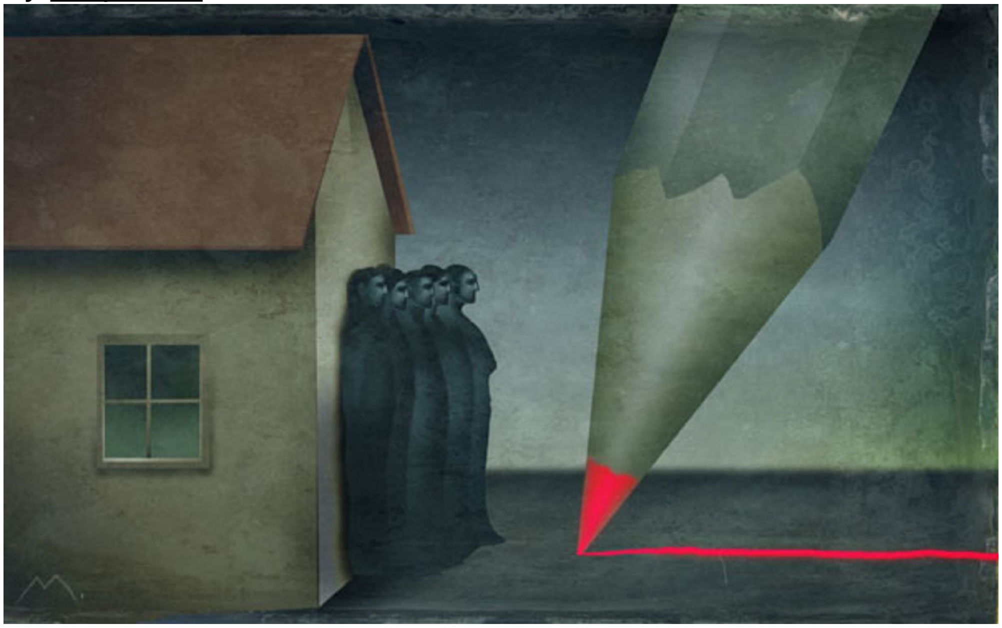

Illustration by: Matt Mahurin

PART TWO in a Series, PART ONE: Fraud Worsens Foreclosure Crisis.

The foreclosure scams that have found a foothold in Prince George's County, Md., these days have a long history. Despite the wealth here, the county has for years been underbanked for its market, with an inadequate number of traditional financial institutions.

Illustration by: Matt Mahurin

There has always been been an opening for predatory lenders, within and without the community, who count on a long-held mistrust of lenders to seal deals made outside the traditional banking system, said Doyle Niemann, a state legislator who represents Prince George's County and who sponsored the state's recent anti-foreclosure fraud law. That's why people sign loan papers brought to their homes; or rely, as many did here, on an ex-police officer turned foreclosure specialist; or trust in recommendations from a friend alone for a mortgage deal.

The mistrust has a long history. When the Federal Housing Admin. was created in 1930s, loans were specifically prohibited in integrated neighborhoods, and all during the New Deal, blacks were excluded from housing programs. In the 1960s, the civil-rights movement brought the landmark passage of the Fair Housing Act, outlawing discrimination in lending. But banks frequently refused to lend in minority neighborhoods throughout the 1960s and 1970s. This continued even into the 1980s — when The Atlanta Journal-Constitution used federal mortgage data to document continued redlining.

But by the 1990s, access to fair housing and credit seemed on the upswing. The Community Reinvestment Act, created to counter redlining and ensure banks invested in their surrounding communities, was strengthened, and banks couldn't get mergers approved without showing they had complied with it. Other anti-redlining lawsuits and efforts grew, and credit became more widely available to minorities and to people with modest incomes.

In defiance of all that progress, the subprime mortgage crisis brought with it a form of reverse redlining — in which lenders provided a glut of credit to neighborhoods once underserved by banks. Minorities also preyed on their own communities.

In Prince George's, mortgage brokers in the sizable Latino community routinely falsified incomes on applications without the knowledge of the borrowers, qualifying them for homes they could never afford. One loan listed two house cleaners as doctors for their occupations, said Mosi Harrington, executive director of the Housing Initiative Partnership, a non-profit developer in Prince George's that also counsels homeowners. "It's very sad," she said. "They thought they were doing the right thing, reaching for the American dream."

Now there are the foreclosure scams, a second wave of the reverse redlining. Within the black community, they are conducted on both large and small scales, employing different “levels of badness,” as Neimann explains.

The most notorious case is the Metropolitan Money Store scam, a $35-million foreclosure ripoff of homeowners and lenders engineered by a Prince George’s County couple, and the largest mortgage fraud case in Maryland history. The couple, charged in the case in June, had earlier thrown themselves an $800,000 wedding using equity stolen from foreclosed homes.

But what struck investigators most about the case was a kind of targeting authorities had never seen before. Usually, mortgage lenders use a whiteboard to keep track of a potential customer’s name, address and phone number. In the Money Store case, however, the whiteboard listed the amount of equity to be had in a person’s home.

“Predators knew where they were more apt to find their victims,” said Rob Strupp, director of research and policy at the Community Law Center in Baltimore, which represents Prince George’s County homeowners in mortgage and foreclosure fraud cases. “They knew what their target was.”

The next level of fraud involves local people who use their community standing to run their scams, Neimann said. Sometimes it’s the ex-policeman or trusted friend. They play on the solidarity of the neighborhood, using the pitch that “you can’t trust them, but I can help you,” and running deals under the table. On another level, the referrals are simply well-meaning, offered by the local clergy or community leaders who just want to help.

In Accokeek, the construction of new subdivisions beginning in 2005 is cited by many as the cause of the high foreclosure rates. Major lenders, from Countrywide to Washington Mutual, offered what Mosi Harrington described as a step-up style loan to the new homeowners. They sold the loans at an initial low rate and explained that while the rate would increase each year, so would the buyer’s salary — so the loans would remain affordable. But any salary increases couldn’t keep up with the escalating costs of the loans.

When their loans go bad, people often come to The Barber’s Chair to share their troubles, rather than seek help elsewhere. When the talk turns to foreclosures and where to get help, the conversation quickly yields the name of Frank Purcell, described around the shop as “a friend who helps families facing foreclosure.” Give him a call, people say, and he can help you out.

According to Maryland court records, Purcell, a Prince George’s County native, has three lawsuits filed against him over foreclosed houses and is currently under investigation by state fraud officials in the case of Laurie Lewis, whose family lost its Laurel, Md., home in a scam.

Lewis, 38, a mother of two, said she and her husband had health problems and ran into trouble keeping up the payments on their home. She turned to a long-time friend, Maria Hairston, who was also a real-estate agent in Accokeek. Hairston said she could help, and showed up at the Lewis home with Purcell. Hairston introduced Purcell as someone who works with people facing foreclosures, Lewis said. She learned much later that Hairston and Purcell are married.

Lewis' suit charges that Purcell promised to buy their home and keep it for a year, taking $32,000 in upfront rent payments and fees. The Lewis' were supposed to work on improving their credit and then buy the house back. Lewis quickly figured something was amiss when she learned Purcell had refinanced the home. He began ignoring her phone calls and asking for more money. She and her husband refused. By the end of the year, they had to move out because the house was being foreclosed on.

They now live in a cramped, two-bedroom apartment. "You never know who is really in one these scams," Lewis said. "You never think a friend would do that to you. I was shocked."

In an interview, Purcell, who once ran a real-estate company called America's Dream, said he still helps people try to save their homes, but he no longer buys them and promises to sell them back, because the new anti-fraud law enacted earlier this year makes it illegal. Instead, he refers to himself now as a "loss-prevention specialist.

If someone has missed a payment or two, he aids them in negotiating with the bank, though later in the interview he clarified that he does not do the actual negotiating. Instead, he helps them figure out how to do it themselves.

"If someone is at foreclosure's door, I can only help them if they are able to afford their house payment," Purcell said, "The question I ask now is, 'Can you show me that you can afford a $1,900 a month payment?' or whatever it might be. Because if you can't show me that, there's nothing I can do about it. The reality is that not everyone can be helped. I do turn people away."

As to the lawsuits and charges, Purcell said they are the result of personal disputes with friends he tried to help. In the Lewis case, he contended the family left with money in their pockets. He doesn't want to point fingers. "If that's how they feel, that's fine," he said. "You live and learn. They didn't really understand what it was."

Purcell said he continues to buy foreclosed houses — which is allowed under the law. He thinks the new restrictions make it harder for people to keep their homes and instead benefit investors, who profited from bad loans in the first place and will be the ones to scoop up foreclosed homes at low prices. The foreclosure business is marked by "a lot of bad apples," he said, but he does not consider himself one. "Have I made money?" said Purcell, who lives in Accokeek. "Absolutely I have made money. I have no apologies for that."

Despite the new law, foreclosure scams continue. People charge for seminars on how to get into the foreclosure business without running afoul of authorities. One purpose behind the regulations was to push people into the marketplace, where the transactions can be regulated. But the law can't address the off-the-record arrangements that continue.

Neimann said the ex-police officer, whose foreclosure scams inspired the legislator to write the law, regularly shows up at legitimate community housing-counseling sessions to offer foreclosure help, peddling a Xerox copy of a booklet on foreclosure and trying to charge $100 for it.

The fallout from the scams and the subprime loans will have long-term effects in Prince George's County. Already, nationwide, homeownership rates among minorities have fallen — which translates into a drop in overall wealth.

Minority communities, even upper-income neighborhoods, were hit hard because of the "shallow assets" problem, Harrington, the housing counselor, explained. First-generation black homeowners who got in trouble couldn't easily bail themselves out, without having built-up wealth to tap into. In her view, subprime and home-equity loans should come with some warnings about their side effects — like losing your home — in the same the way medicines are advertised on television.

She and others, however, weren't particularly surprised that predatory lending and foreclosure fraud continues. The targeting of black neighborhoods for all sorts of financial scams has gone on for years, and this latest wave is yet another unfortunate chapter in the long story of redlining, Squires of George Washington University noted.

The difference now is that many people think enough racial progress has been made that there's a level playing field out there. The foreclosure crisis in places like Prince George's proves that it's not.

As Niemann put it: "People don't recognize this for the scandal that it is."

Still, Niemann thinks the new law banning some foreclosure scams is a sign of progress — proof that something positive is coming out of this crisis. If lenders step up to the plate to help restructure loans for troubled borrowers, he said, they can make a positive difference and create a new trust among residents.

So far, things aren't going that way. Harrington said that the lenders her organization works with increasingly are limiting the extent of mortgage loan restructurings to five, three or even two years — instead of converting mortgages to 30-year-fixed loans. "I don't see how we're not going to be right back where we started in a few years," she said.

Until then, foreclosures and mortgages dominate the talk at The Barber's Chair. People in trouble keep coming in, looking for some way out.