# Case Study:

***A "Foreclosure Capital" in the Shadow of the Nation's Capital***

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by Mike Hudson

Louise Golden's backyard is a showplace. She planted everything with her own hands: crepe myrtle, pink peonies, azaleas, and roses of four colors. She and her husband, Stanley, bought the split-level house on Kepner Court in Lanham, Maryland, in 1980. She loved the place from the start, because of its roomy kitchen, and because of the possibilities she saw in the backyard. "This was the one," Golden, now 79, recalls thinking.

The Goldens were like many African-American families who found homes in Prince George's County over the past few decades, helping to make the Washington, D.C. suburb one of the nation's largest majority African-American municipalities. They worked hard and saved to buy a home where they raised their children and hoped to spend the rest of their lives. And now, like thousands of other homeowners in the county, Louise Golden is fighting to hang onto her home.

For a generation, Kepner Court and nearby streets had made up a stable neighborhood of predominately middle-class African American homeowners. But things have changed, as foreclosures and desperation sales have swept across Prince George's County. One house on Golden's block has turned over twice in little more than a year. A young couple that lived around the corner moved out not long ago; Golden learned they were gone when she saw that many of their belongings had been stacked on the curb. "No matter who you talk with these days, it seems like we're all crying the blues," Golden says.

Her mortgage problems can be traced back to a loan she and her husband took out in 2006 from American Brokers Conduit, a subsidiary of the now-bankrupt corporate forebear of American Home Mortgage Servicing. Stanley Golden, a retired electrical draftsman, had suffered a stroke and other health problems that left the couple drowning in medical bills. Stanley had insisted that they refinance the house on Kepner Court, using the equity in their home to pay off their accumulating debts. "He was very worried that something would happen and he would leave me with a lot of bills," Louise Golden recalls.

Ms. Golden says she believed that she and her husband were getting a good deal: a 30-year loan with a low fixed interest rate. Instead, even though the Goldens were an elderly couple on a fixed income, American Brokers saddled them with a pay-option Adjustable Rate Mortgage (ARM)**.** As an option ARM, the loan carried an array of payment options, including a payment that was so low that it didn't cover principal or interest. Golden says she didn't understand the paperwork that the mortgage professionals put in front of her. “I had never heard of it – what do you call it – an ARM?” Golden says. She maintains that a representative of the mortgage broker that steered her and her husband to American Brokers Conduit promised that they would get a fixed rate and fixed payments.

The following year after the Goldens got the loan, Mr. Golden passed away. As she was grieving, Louise Golden learned some distressing financial news: Stanley’s pension from his long-time employer was cut off upon his death, leaving her to get by with only her own Social Security and Social Security survivor’s benefits.

She struggled to keep up with the payments on the mortgage. Then, at the end of 2008, she received even more bad news. She discovered that the monthly payments on the house note weren’t fixed; they were about to begin zooming upward. The mortgage payments, which with taxes and insurance had initially totaled just over $1,000 month, rose to more than $1,700 a month. That’s more than Louise Golden’s monthly income, and she has trouble sleeping many nights worrying about how she got into this mess—and about whether she’s going to lose her home.

“You have to make these adjustments,” she says. “And I think that’s the hardest part. Because I don’t do that very well.”

### *“The Subprime Capital of Maryland”*

Louise Golden is not alone. With a population that is 64% African American, Prince George’s County offers a case study of the unequal impact of the nation’s foreclosure crisis on communities of color. Prince George’s has become Maryland’s foreclosure capital, far and away recording more total foreclosures and a higher rate of foreclosure than any other jurisdiction in the state. In 2009, Prince George’s recorded 13,412 foreclosure filings—accounting for 31% of foreclosure filings in the state, even though the county has less than 14% of the housing units in the state.[1] According to the Maryland Department of Housing and Community Development, one out of every 24 homes in the county was subject to a foreclosure filing last year, compared to a statewide rate of one out of 54.

Consumer advocates claim that Prince George’s and other places like it are suffering in large part because minority homeowners were targeted by mortgage lenders peddling dangerous, overpriced products. “Predators knew where they were more apt to find their victims,” said Rob Strupp, research director at the Community Law Center in Baltimore. “They knew what their target was.”[2]

Studies have shown that black and Latino homeowners often are charged higher rates than whites with similar incomes and credit records.[3] In 2005, at the height of the mortgage boom, roughly 43% of mortgage borrowers in Prince George’s who bought new homes or refinanced their homes received high-cost loans, compared to just 20 to 24% of mortgage borrowers who received high-cost loans throughout the Washington, D.C. metropolitan region, according to a figures compiled for the *Washington Post* by the Consumer Federation of America.[4]

This disparity held true even when comparing more affluent neighborhoods of different racial makeups. Some 34% of homeowners who refinanced their loans in the county's majority-black Lake Arbor census tract ended up with high-cost loans, compared to just 4.5% of homeowners who refinanced in a majority-white census tract in northwest Washington, D.C. The D.C. tract had a median family income of just under $140,000 a year, but was 81% white. The Lake Arbor track had a slightly higher median family income -- $156,000 – but was 81% black.[5]

Research by CreditXpert, a firm that develops credit-management software, found that the frequency of high-cost loans in Prince George's County couldn't be explained solely by the prevalence of bad credit histories among country residents. To the contrary, CreditXpert found that the average credit scores in country were higher than both the state and national averages.[6] Patrick Noel, a physician who has owned his home in eastern Prince George's for more than two decades, told the *Washington Post* that he was contacted as often as five times a day by lenders urging him to refinance at a higher rate, even though he qualified for a prime rate.[7] "They were very, very, very aggressive," he said. "If people needed money and used that opportunity and they didn't go looking elsewhere, it would be easy for them to fall victim to that sort of thing."

### *"It all seemed to be double talk"*

Louise Golden's lender, American Brokers Conduit, was a subsidiary of American Home Mortgage Investment, a national lender that collapsed under the weight of mortgage defaults by its customers and filed for bankruptcy in 2007. Lawsuits around the country have accused American Brokers Conduit and American Home Mortgage Investment of predatory lending and other abuses.[8] Golden has not filed a lawsuit, but the Maryland Legal Aid Bureau, a nonprofit law clinic, has taken her on as a client. Vicki King Taitano, a staff attorney with the legal program's Foreclosure Legal Assistance Project, says it is clear to her that the Goldens were misled during the origination of the loan, and the agency is prepared to file a motion to stop the foreclosure if the mortgage servicer moves forward with its threat to take her home.

"Even if I had had time to sit down and read it all," says Golden, "I wouldn't have understood. It all seemed to be double talk. . . . It just hurts me. Why didn't they just tell us how they were writing it up—and give us a chance to say, 'No, that doesn't work for us.'?"

Kathryn Baxter, a fellow Jehovah's Witness and longtime family friend, has been trying to help Golden grapple with her personal mortgage crisis. Baxter has 25 years of experience in the credit industry; she is currently external training coordinator with the National Credit Union Administration. On her own time, Baxter has been trying to work out a deal that will save Golden's home.

Even with her background, Baxter says, it took her a long time to sift through all of the documents and understand the loan package that Louise and Stanley Golden signed. "It wouldn't make sense" for the Goldens to have knowingly signed up for the option ARM, says Taitano, the legal aid lawyer. "That's like saying: 'You can afford this house for a few years and then you're going to be homeless,' and they say, 'OK!' They wouldn't have done that. No one would do that."

It also appears to Baxter and Taitano that one or more of the mortgage professionals involved in the process inflated the couple's income on the loan application; in the loan paperwork, Baxter found a handwritten document that correctly indicated that couple brought in less than $3,000 a month, but a typed document indicated that their monthly income was roughly twice that much -- $5,700. "You can see where the Goldens wrote in the correct amount on their application; on the typewritten application it was changed," Taitano says.

After Stanley's death, Louise Golden's son, Stephen, moved in, contributing $800 a month to help with the household expenses. Stephen died in November 2008 after suffering liver problems.

Baxter has been working for more than two years to secure a modification for Mrs. Golden. She says, however, that American Home Mortgage Servicing has failed to respond in a reasonable manner to requests to rewrite Golden's loan, repeatedly losing paperwork and even misplacing Golden's written authorization allowing Baxter to talk with the mortgage company on her behalf. "This has just been an exercise for Louise in patience and frustration," Baxter says.

American Home Mortgage Servicing has made a modification offer that would require Golden to pay $1,095 a month—virtually all of her monthly income.[9] Taitano, the Foreclosure Legal Assistance Project attorney, notes, too, that the offer would require Golden to waive her rights to pursue fraud or truth-in-lending claims in court. Taitano has advised Golden not to accept that offer, and hold out for something better.

**About the Center for Responsible Lending**

The Center for Responsible Lending (CRL) is a national nonprofit, nonpartisan research and policy organization dedicated to protecting home ownership and family wealth by working to eliminate abusive financial practices. CRL is affiliated with Self-Help, one of the nation's largest community development financial institutions.

For additional information, please visit our website at **www.responsiblelending.org**.

In response to questions from the Center for Responsible Lending about Golden's loan, American Home Mortgage Servicing replied that "AHMSI is not affiliated or related to the mortgage lender or mortgage broker involved in the origination of the loan. AHMSI plays a limited role in servicing mortgage loans and cannot pass on the validity of the origination-related claims." The loan servicer said it had tried in numerous attempts to work with Golden in an effort to modify her loan. In some instances, it said, it had not received the necessary documents or a prompt response from Golden.

Baxter, however, says that she and Golden have turned in the proper documentation in a timely manner; it was simply lost or ignored by the loan servicer, Baxter maintains.

For now, with the fate of her home up in the air, Louise Golden can only wait and worry. "I don't want to give up my home," she says. "I've lived here for the last 30 years. I would really like to die in this house."

[1] "Property Foreclosures in Maryland Fourth Quarter 2009," Maryland Department of Housing and Community Development.
[2] Mary Kane, "The Reach of Redlining," *The Washington Independent*, August 21, 2008.
[3] See, for example, Tamara Jayasundera, Joshua Silver, Katrin Anacker and Denitza Mantcheva, "Foreclosure in the Nation's Capital," National Community Reinvestment Coalition Working Paper, April 2008. This study used a regression analysis of a sample of mortgage loans made in the Washington, D.C., metro area, controlling for borrowers' credit histories, loan-to-value ratios and other key characteristics. Even when such factors are taken into account, the study concludes, "Latinos were 70% more likely and African Americans 80% more likely than their white counterparts to receive a subprime loan. This finding suggests that race, in and of itself, alters the likelihood of receiving a subprime loan."

[4] Kirstin Downey, “High-Cost Home Loans More Common in Pr. George's,” Washington Post, March 17, 2007. The federal government defined high-cost loans as loans with rates 3 percentage points or more above a specified market rate.
[5] Ibid.
[6] Ibid.
[7] Ibid.
[8] See, for example, *Pena v. Mortgage Freedom Team*, U.S. District Court for the Northern District of Illinois, 2007. The defendants in this case were American Brokers Conduit and an independent mortgage broker that fed customers to the lender. The lawsuit alleged that American Brokers Conduit took advantage of Hispanic and African American homeowners by using discriminatory “yield spread premiums” that encouraged the broker to saddle minority borrowers with higher fees and onerous loan terms. The defendants denied the allegations. The case was settled in 2008.
[9] Proposed “Loan Modification Agreement” provided by American Home Mortgage Servicing.