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Failed mortgages fly under the radar

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The city of Charlotte does not count foreclosures. Neither does Mecklenburg County. Nor the state of North Carolina. Nor the federal government.

As a result, authorities did not notice an emerging pattern: Foreclosures increasingly were concentrating in starter home neighborhoods.

An Observer analysis of county records found 35 Mecklenburg developments of low-priced homes built in the past decade with foreclosure rates of 20 percent or higher. Dozens of residents say the concentrations have damaged their communities. Prices fell. Renters moved in. Crime sometimes rose.

But as the foreclosures piled up, authorities were unaware.

"We wouldn't know it on a neighborhood level," says Mark Pearce, deputy N.C. commissioner of banks, which regulates loan sellers. "A 20 percent foreclosure rate in a neighborhood that's new is surprising and troubling."

Even the Federal Housing Administration, which insured many of the failed loans, didn't track the concentrations.

The Observer on Sunday profiled Southern Chase, a neighborhood of 406 houses in Concord built by Beazer Homes USA. Seventy-seven buyers lost their homes to foreclosure. Forty-five of the failed loans were insured by the FHA. But federal officials expressed surprise when asked about the concentration.

The Department of Housing and Urban Development, which administers the FHA program, was unable at first to say how many loans it insured on streets in Southern Chase. It was unable to say which ones had foreclosed. And it didn't know all the failed loans were in one neighborhood.

The lack of information about the location of foreclosures makes it harder to regulate the lending industry. Buyers share responsibility for the loans they accept, and foreclosures sometimes result from the loss of a job or an unexpected expense. But regulators say that concentrations of foreclosures often indicate misconduct by someone else, such as a broker who arranged a number of loans or an appraiser who valued the homes.

None of the government agencies contacted by the Observer plans to start tracking foreclosures.

Federal authorities

About 8,700 homes have foreclosed in Mecklenburg County over the past four years. The county's foreclosure rate is the highest in the state. An Observer study found almost 30 percent of the foreclosures in 2003 and 2004 were associated with loans insured by the federal government.

The FHA encourages lending to lower-income families by promising to repay lenders if the borrower does not. The money comes from premiums paid by borrowers, not from taxpayers.

In the mid-1990s, the FHA started insuring riskier loans. Borrowers were no longer required to make a down payment. Lenders could arrange larger loans simply by projecting that a borrower's income was likely to increase.

The share of Americans who own homes rose to almost 69 percent last year from 65 percent in 1996. The FHA was responsible for a share of the increase. So were subprime lenders, which make loans with high interest rates to the same people traditionally served by the FHA.

But now the number of foreclosures also is pushing into record territory, driven by defaults on FHA and subprime loans, according to estimates made by the lending industry.



The Stewarts Crossing subdivision in Charlotte has had a high percentage of foreclosures. GARY O'BRIEN

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