

## Subprime lending woes: How a borrower lost his shirt

### Ken Youngerman thought subprime refinancing deal would get him out of debt; he was wrong

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By Chico Harlan, Pittsburgh Post-Gazette

Ken Youngerman, 64, must start over now. He's that leathery swashbuckler type, with a cigarette and a saying for every situation. ("The tree that don't bend with the wind is the one that breaks.") He's always taken a lot of risks. Because of that, every year of his life now comes with a good story. Also because of that, he's in massive debt, he lost his old home, and, after several hours of conversation on a recent sunny afternoon, he can't stop muttering about his stupidity.

He rents his current house -- just a mile from his old home, the one he never wanted to leave -- for \$725 a month. He lives there with his wife, Hilda. They don't take vacations; they don't buy new appliances; they survived last winter with a space heater, not a furnace. Those credit cards? Scissored to pieces.

This is the net result of a mortgage deal -- maybe one that Mr. Youngerman never should have been offered, definitely one that he never should have taken. Last week, he received a letter from the Westmoreland County prothonotary's office. He's \$221,981.66 in debt.

The kind of mortgage loan that buried Mr. Youngerman is called a subprime mortgage, a risky transaction intended for high-risk borrowers. Those receiving subprime loans, like Mr. Youngerman, have poor credit or low incomes or both.

The deals, loosely regulated and often typified by adjustable rates, sometimes invite predatory lending practices -- and, in Mr. Youngerman's case, outright fraud. With subprime deals now exploding nationwide, leading to default and foreclosure, borrowers like Ken Youngerman are part of the wreckage.

A decade ago, a sound notion drove the subprime boom: Even imperfect customers deserve a home. But Mr. Youngerman already owned a home. He bought it in 1970 -- a little beige brick house on Pettigrew Drive, in North Huntingdon, with three bedrooms, tucked near the end of a cul-de-sac. Mr. Youngerman and his wife moved in with no furniture, only a mattress for the bedroom. In that home, they raised four children. And from that home, Mr. Youngerman ran his business.



Rebecca Droke, Post-Gazette

**"I'm not sad, I'm a survivor," says Ken Youngerman outside the home he lived in for 36 years until December 2005 when he got into insurmountable debt and had to move out of the North Huntingdon house. He now lives about a mile away in a rented house with his wife and two of his four children.**

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He sold life insurance. At first he tried working for others, but he wanted independence, so soon he opened a one-man shop in his basement, sharing office space with crying kids and barking dogs. He developed a collection of loyal customers.

Then, one risk -- an attempt to expand his business at a new site with contracted employees -- cost him a quarter-million dollars, he says. When he lost business time in 2005 because of his daughter's sickness and hospital stay, he needed to refinance.

A colored four- or five-page flier, mailed to his house, offered a quick fix and provided a telephone number. Mr. Youngerman would later describe this as an act of personal greed.

"Well," he said, correcting himself, "greed and hope."

In April 2005, he visited the Regent Square office of John Feeney, representing Citizens Settlement Services Inc. At closing time, the agreement caused both Mr. Youngerman and his wife to pause: An appraiser said the house was worth \$185,000, which boosted the amount he could borrow, when similar homes in the area were selling for no more than \$130,000. Ms. Youngerman glanced at her husband, a self-described stubborn German, and said, "You don't have to do this." He signed anyway. ("Women have better instinct than men," he now says.)

On a \$185,000 refinancing loan, Mr. Youngerman received a 9.3 percent interest rate from the lender, Argent Mortgage Company, of Rolling Meadows, Ill. He paid off an existing loan, two secondary loans, and received \$14,750 dollars in a lump sum -- "cash out."

And, he began paying \$1,528 a month, more than he could afford, and some \$700 more than he'd paid before. He'd just figured he would work harder and earn more money. Instead, he said, "I started drinking more." His wife dealt with depression. Sometimes at 4 or 5 a.m., Mr. Youngerman, unable to sleep, would scrawl his monthly payments on a piece of scrap paper, trying to find the math that could spare him from foreclosure. Nothing added up as he wanted.

### **A national problem**

Current turmoil in the national subprime mortgage market partly comes from those signing their names in agreement. Some borrowers, like Mr. Youngerman, accept the terms despite misgivings. ("It was like trying to put a Band-Aid over open-heart surgery," he says.)

But more borrowers, nonprofit advocates say, fall into a different category: They lack knowledge about the financial transaction, the details of which often span 30 pages. They become vulnerable to brokers who receive incentives to close deals -- even those doomed to fail.

A recent Center for Responsible Lending study predicted that one of five subprime loans issued between 2005 and 2006 will fail. For 2006 subprime loans issued in Pittsburgh, the center projected a foreclosure rate of 16.3 percent, just below the national average. Still, foreclosures in Pittsburgh have hit a record rate -- one of every 271 households, according to data from RealtyTrac, an online marketplace for foreclosed properties.

Customers, drawn in by initial low rates, commonly default between the second and fifth year of the agreement, local experts said. That's when adjustable rates often kick in, prompting monthly payments to skyrocket.

Those wishing to refinance often cannot because of the massive penalties that would result.

"People just don't know what they're getting into," said Randi Lowe, a client manager at the Pittsburgh Community Reinvestment Group, which counsels victims of predatory lending. "It's like a big, nasty Velcro ball, and it's picking up speed, and it's picking up more and more sorrow as it goes along."

On Dec. 22, 2005, Mr. Youngerman and his wife moved into their current house. He felt shame, even humiliation, he said. His wife wondered how their meeting with the broker -- "Some guy sitting there, painting a pretty picture for you," she said -- could devolve into personal bankruptcy.

Questions about the merit of subprime mortgages balance the importance of freedom opposite the importance of protection. In recent months, Congress has heard testimony about subprime and predatory lending practices, and is debating whether to tighten lending regulations. This would mean, potentially, that fewer families take on more debt than they can handle. It would also mean that fewer families receive the chance to own a home.

"Some brokers are not following ethical standards, but wouldn't it be easier to get those bad apples out instead of removing the loan options entirely?" said James Butler, president of Professional Mortgage Connection, in McKeesport. "[A subprime mortgage] is like medication. It can be good when properly matched to the person. When it's not, it can kill you."

In the last year, unpaid mortgages have forced more than two-dozen lenders out of business. Some lenders have watched their Wall Street shares plummet. Mortgage corporation Freddie Mac announced in February that it will no longer buy common kinds of subprime mortgages.

"We've been saying for the last nine or 10 years that this is a problem," said University of Pittsburgh housing expert Angela Williams Foster, a professor of public and urban affairs.

"But now," Ms. Lowe said, "it's hitting the big boys."

### **Revisiting what's lost**

Several days ago, Mr. Youngerman climbed into his tan Jeep, missing its inner door panel, but still a good car. "It's hard for me, driving back here," he said, as he navigated toward his old home.

On Pettigrew Drive, homes almost never change hands. Mr. Youngerman socialized with his neighbors; they don't do that at the new place. When the Youngermans moved out just before Christmas 2005, he wondered what those friends thought: Did they resent him for leaving an abandoned home in the neighborhood? Did they think he was foolish? He never asked.

In the year since the move, they have grasped for perspective. According to data compiled by Ms. Williams Foster, the Pitt professor, 62 percent of subprime loans in the Pittsburgh area come by way of refinancing. Or, as Mr. Youngerman said while driving: "You can never borrow your way out of debt. Benjamin Franklin said that. Well, that's what we tried to do."

This January, a judge sentenced Chester Underhill -- the appraiser who valued the Pettigrew Drive home at \$185,000 -- to 30 months in prison. Turned out Mr. Underhill's appraisals were sometimes inflated by 80 percent. He'd used his dead father's real estate license on the job. The fraud charges resulted from both violations.

Mr. Youngerman rolled into his old driveway, parked the car and walked around the perimeter of the now-empty house. A combination lock hung on the front door. He peered through the living room window, seeing only darkness. Some of his office equipment, he explained, remained downstairs.

He spun around in his front yard, glancing at reminders. That cul-de-sac -- who knows how many times he'd run circles there, helping his children ride their bikes. That hill up the street -- many winters, the ice and snow would stop his Chevy in its tracks. This porch, painted burgundy, that he built himself.

"That had to be 18 years ago," he said.

After a quick look at the back yard -- the tiny in-ground pool was covered by a tarp -- he returned to his car. The whole visit lasted 15 minutes, tops.

"Somebody will get this home in a sheriff's sale," he said. "I hope it makes somebody else happy."

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