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Neighborhood swayed by 'liar's loans'
By Associated Press

BOSTON - Upstairs at Victory Chapel Church - a cinderblock bunker converted from a long-ago Ford dealership - the pews are reserved for praising heaven.

But downstairs, in a basement rental hall, a pair of women preached of worldly wonders.

On Saturdays they set out folding chairs and Dunkin' Donuts. And they offered testimony to the bounty of real estate, encouraging their flock to buy the wood-frame walk-ups and rowhouses surrounding this workaday stretch just down from the OJ Carwash.

The key was trust, they told the faithful. Still, Valerie Hayes was a little skeptical.
"I really was thinking it would be at least a year before I'd get a mortgage," says Hayes, an executive secretary and mother of two. She was wary of borrowing because she was saddled with her own student loans.

But a day later, she was preapproved to buy.

Soon after, Hayes did buy. The problem, prosecutors say, is that the women put Hayes and others into homes they couldn't possibly afford by filling their loan applications with details of jobs and paychecks that were all so much fiction.

What happened in the church basement happened elsewhere, too. The rapid growth of subprime mortgages that made so many people homeowners did more than promote questionable lending. It rewarded the gimmickry and manipulation that delivered the loans an industry craved.

Some say it's fraud. Those accused reject the charges. The case also raises tough questions of whether borrowers, too, should bear some responsibility.

But the bottom line is beyond dispute. Valerie Hayes can tell you about that. Just don't go looking for her at the home she bought, thanks to the women at Victory Chapel Church. It's owned by the bank now, and there's a real estate agent's lockbox on the door.

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Over the past decade, the mortgage industry has turned itself into a very big tent.

Lenders devised new types of loans and eased standards, making it much easier for many people to borrow. Homeownership reached record levels.

But as interest rates rise and the market cools, it becomes clear many people were put into punishing loans.

That is particularly evident in the enormous growth of "stated income" loans _ known in the industry as "liar's loans."

Stated loans _ whose borrowers list income and assets without having to prove anything _ were meant for solidly self-employed buyers. Then it "morphed into a huge monster," says Connie Wilson of Interthinx, a maker of mortgage fraud detection software.

By last year, nearly half of subprimes required little or no documentation of income, according to First American LoanPerformance. But the industry overlooked the pitfalls.

A study of stated loans by the Mortgage Asset Research Institute Inc. found almost 60 percent exaggerated incomes by at least half. Another by BasePoint Analytics linked 70 percent of mortgage defaults to "a significant misrepresentation on the original loan application."

Mortgage fraud is most visible in spectacular cases involving fake buyers, property flipping, vast amounts of money. But that overlooks smaller-scale foul play costing many subprime borrowers their homes, experts say.

Often it's not considered fraud. It's pushing the envelope. It's doing whatever it takes.

"There's a huge amount of broker fraud out there," says Kerstin Arusha of the Fair Housing Law Project in San Jose, Cal., which represents low-income homeowners stuck in such loans.

Most real estate agents and mortgage brokers are honest, but too many have stretched the truth, says Jim Croft, founder of the Mortgage Asset Research Institute.

"And they always have the fallback that they're not dishonest," he says. "They're just helping Jill and Joe Six-pack get into the home _ and realize the American dream."

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Frances Darden dreamed of buying a house.

It would look and feel like her grandparent's place in the South Carolina of her childhood. It would have a backyard for barbecues and a front porch for conversation.

French doors would usher visitors from living room to dining room.

Still, it was lot to imagine for a hair stylist on disability, reliant on a subsidized housing voucher, and supporting two teenagers.

Then, in September 2004, she spotted an ad in the weekly Banner.

"Want to Buy a Home? Credit Less Than Perfect?" beckoned an ad from Champagne & Associates. "Let's Make History."

Darden went to a free seminar with her friend, Annie Neal, at Champagne's office, and met two women who vowed to help them.

The first was Champagne's owner, Roberta Robinson, a former mortgage broker who'd started her own real estate shop.

"She had an answer for every question," Darden says.

The second was Rachel Noyes, a bartender-turned-mortgage broker who promised to unlock the secrets of borrowing.

"I really felt like I was helping people get into homes," Noyes says. "The one question I always asked, to drill into your mind, is: How much can you afford?"

But those who attended the seminars don't remember it that way.

"As long as you're honest with me," Valerie Hayes recalls Noyes saying, "I guarantee you I can you get you into a loan."

Organizers asked for Social Security numbers to run credit checks.

"We're not going to be approved to buy a home in Boston," Darden recalls thinking.

But a couple of days later Robinson called with good news.

Darden had been preapproved for a loan. Up to $360,000!

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It only took a few weeks for Darden to find her dream house _ a two-family with pale yellow siding, a small front porch and another on the back. But could she afford it?

Darden says Roberta Robinson calmly reassured her. Robinson did not return calls and her attorney declined to comment.

When another bidder pulled out of a deal for the house, Darden says Robinson called with more good news.

"She said, 'You have some good credit, girl, because you got approved for two houses,'" Darden recalls.

"How is that possible?" wondered Darden, who says she told the agents she could afford $1,500 to $2,000 a month.

Renters, she was told, would help carry the load.

Mortgage applications - largely blank - arrived. Darden signed and returned them. In November, Darden closed on the first house. In December, she closed on the second.

She’d been preapproved for $360,000. Now she was borrowing $894,000.

It would cost her $7,194 a month.

Months later, though, after struggling to find tenants and maintain the buildings, Darden wondered what had happened. She studied the finished paperwork.

When she bought, Darden was receiving $1,800 a month in disability payments sometimes supplemented by child support of $150 a week.

But the mortgage application described a woman she did not recognize: a manager for a medical supply company earning $114,000 a year.

Meanwhile, the real Darden was quickly falling behind.

In June 2005, Darden says she went to the Champagne office to demand help in refinancing. By now, effort to recruit buyers had outgrown the space and moved to the church. Some sessions were drawing 40 or 50 people.

Robinson tried to help her sell the second home. But Darden was going through a divorce tying up the home’s ownership _ and falling farther behind.

A year had passed since she’d become a homeowner. Long enough for the lender to lay claim to the investment property and begin foreclosure.

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Darden’s story echoes the others.

Valerie Hayes says she knew something was very wrong when she went to her closing.

She’d agreed to $2,300 payments. But the documents listed payments at $3,300.

"I see the real mortgages and it’s apparent to me I got robbed," Hayes says, "but I’m thinking I’m going to make this work."

Within months, though, maintaining the building depleted savings already strained by the mortgage payments. Then she noticed the reference to a second job _ one she never had _ earning a fictional $1,846 a month working for Champagne.

Last year, Hayes moved out and the lender began foreclosure.

In August, Massachusetts' attorney general filed a civil lawsuit in state Superior Court accusing Robinson, Noyes and their companies of using "unfair and deceptive tactics to target and deceive low-income consumers into committing to mortgages they could not qualify for or afford."

The women pocketed thousands of dollars in commissions and fees for putting together deals and loans bound to fail, the suit says.

Prosecutors have obtained court orders restricting the women and their companies. Both have closed. While the case awaits trial, Robinson has resurrected her real estate business in a nearby Boston neighborhood under a new name _ Opulent Realty Inc.

Noyes, now in Florida, recently lost by default after she stopped appearing in court. But damages have not been set and she denies any deception.
"With stated income loans ... because there's no documentation, you're going by what the buyer is saying," Noyes said. "Who am I to say: 'You're a liar. You don't make that'?"

The borrowers reject that argument outright. Darden rushes to her bedroom and returns with a copy of the mortgage application she signed. It is all but blank.

If they deserve blame, buyers say, it's for being too willing to believe. Next time she'll be wiser, Hayes says, recalling that morning in the church basement.

Subprime loans?

"I never knew they existed," she says, "until I got one."