U-T San Diego

SPECIAL REPORT
Heyday to Mayday
Little Lake ST

People of modest means hitched hopes on Little Lake Street

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Greed and naivete collided on Little Lake Street in the fall of 2004.

It produced easy money for speculators and mortgage brokers and short-lived happiness for families who bought houses they couldn't afford to keep.

Few streets in the county have witnessed as dramatic a turnaround as Little Lake. Nestled in the heart of the sprawling Otay Ranch development in eastern Chula Vista, the new homes generated so much interest that people spent months on waiting lists, just for the option to buy.

Prices on one block peaked in 2005, a few months after homes hit the market. Since then, 13 of the 23 houses -- 57 percent -- have fallen into foreclosure, making it one of the tightest concentrations in the county, according to a *San Diego Union-Tribune* analysis of MDA DataQuick information.

Little Lake Street is a microcosm of the South Bay's imploding real estate market. One in seven foreclosures in the county has taken place in Chula Vista, double its share of the county's housing stock.

Real estate experts say the flood of new, competitively priced homes in the area lured a dangerous mix: unsavvy home buyers and opportunistic brokers and lenders.

Subprime loans, the high-interest mortgages sold to people with blemished credit, were rampant in the census tract surrounding Little Lake Street. Of the 3,600 loans sold in that tract in the past three years, more than 1,000 were subprime. That's the most of any tract in the county, according to a *Union-Tribune* analysis of federal data.

But the problem wasn't confined to subprime mortgages. Many home buyers gorged on easy credit. Tempted by persuasive mortgage brokers and lenders, they bought multiple half-million-dollar homes completely on credit, most with terms to pay only interest or adjustable interest rates that quickly soared.

About 12 percent of foreclosed properties likely belonged to investors who each walked away from at least two houses in the past three years, the *Union-Tribune* found in an analysis of the 30 census tracts in the county with the highest rates of foreclosure.

NELVIN C. CEPEDA / Union-Tribune
A "repo" bus tour through Otay Ranch stopped recently on Little Lake Street, where more than half the houses on one block have gone into foreclosure in the past three years.

Little Lake Street stories:

Juan Burgoa

Juan Burgoa lost two homes to foreclosure in less than two years. Burgoa now rents with his daughters Julissa (not shown), Karina, (left) Brenda, (center, bottom) Jessica, (center, top) and their mother, Yolanda

Ernesto Guevarra

Since his foreclosure, Ernesto Guevarra has lived with his mother. "I'm sad I cannot afford to buy the things I want," he said. "Before I could buy whatever I wanted."

On Little Lake Street, the owners who were forced to give up houses are people of modest means -- construction workers, a mechanic, a community college instructor and a Navy couple, among others. Many are minorities and immigrants with little education. Most are in their mid-30s to mid-50s.

Housing analysts have characterized the problems in the South Bay as young, first-time home buyers being taken advantage of by predatory lenders. But Little Lake Street attracted people of all motivations: amateur investors, speculators and even one man who said he was part of a fraud scheme. More than half of the buyers gambled by purchasing multiple properties during the housing boom, according to deeds filed with the county.

Looking back, several say they erred by trusting mortgage brokers and lenders who told them they could afford it. Some feel a twinge of guilt about the nation's credit crisis and the role their bad mortgages played in prompting the historic $700 billion government bailout passed last month.

They continue to struggle with the emotional toll of losing their homes and grapple with what they consider the unfairness of it all. During the overheated market, thousands swarmed the South Bay and took out risky mortgages.

"All people did it," said Jesus Muoz, a construction worker who lost his Little Lake Street house in March. "They were investing and selling. If other people can do it, why not me?"

An idyllic setting

Little Lake Street doesn't look its part as ground zero for San Diego's foreclosure crisis.

The houses were designed to reflect country French architecture when they were built four years ago. Many are 1,600 square feet and feature stone and brick archways and old-fashioned shutters painted in olive greens, slate blues and sunny yellows. Neatly trimmed bushes line the fronts of houses. Chimneys peek over second-story roofs.

The street is quiet these days. Several homes are vacant, a couple of which have bank-owned for-sale signs staked out front.

The emptiness of the street is a stark contrast to the frenzied rush that occurred in 2004, when people lined up to buy the houses before they were built.

Many buyers on Little Lake Street, including Terry Louise Washington, said they were bombarded with messages from family, friends and co-workers to invest in property before the prices climbed out of reach. Washington, a community college instructor, heard that message repeatedly at church and even by a speaker at her high school reunion.

"I thought I did the right thing" in buying the house as an investment, said Washington, who used an inheritance from her grandmother for her $118,000 down payment. "People told me it's the way to make it in life."

Washington is one of four foreclosed homeowners on the block who put down more than 5 percent. She is the only one who did not refinance and retrieve the down payment before losing her house.

Jesus Muñoz

Jesus Muñoz thought he had it all figured out. Muñoz never expected things to spiral so quickly out of control. As housing prices started falling, demand for his work dried up.

OVERVIEW

Background: More than 23,600 homes in the county have been subjected to foreclosure since 2005. Chula Vista claims about 14 percent, double its share of the county's housing stock.

A closer look: A San Diego Union-Tribune analysis pinpointed Little Lake Street as an extreme example of the South Bay's foreclosure crisis. More than half the homes on the block have foreclosed, giving it one of the highest rates of foreclosures among single-family houses.

The series:
Part I: People of modest means hitched hopes on Little Lake Street.

Part II: Foreclosure fallout is felt across eastern Chula Vista.

MULTIMEDIA

Online:
Union-Tribune staff members will take your questions about the foreclosure crisis during a live chat today from 2 to 3 p.m. at **uniontrib.com/chat**

U-T Multimedia:
For video, photos and the full series, go to **uniontrib.com/more/repotour**

Video

Prospective buyers ride the repo bus on a tour of foreclosed homes in the Chula Vista area.

Graphic:

Speculation rampant on Little Lake Street

John and Helen D'Ercole, longtime Navy employees, felt they weren't taking a risk when they bought the house a few doors down for $513,000, with a $200 down payment.

"We were really just thrilled to be able to buy a house and make it our own," said Helen D'Ercole, 60, who had lived in rental and Navy housing for 21 years.

The D'Ercoles were among the few who lived in the Little Lake home they bought. More than half of those interviewed said they rented out the homes.

Some were looking to turn a quick profit.

Joseph Spinali, a mechanic for the U.S. Postal Service, said he was hired by a real estate agent who promised him $10,000 to use his name and credit to buy and immediately sell a house on the block.

Spinali said he was a "strawbuyer," meaning he only posed as the buyer in loan documents. The deal went sour, Spinali said, when the market tanked.

He has sued the agent, June Rhodes, saying that she never repaid $52,661 in loans and that she ruined his credit by letting the house slide into foreclosure. In a brief interview, Rhodes denied having hired Spinali as a strawman, which could constitute fraud if loan documents were forged.

"It's very complicated," Rhodes said. "I really don't think it's anybody's business but Joe's and mine."

At least two buyers on the street flipped houses within weeks of their purchase, driving up property values by $20,000 and $71,000.

"There was a flipping fever," said Carlos Aguirre, a community development specialist for National City. "There were small real estate brokerages opening up, enticing people, telling them to hold the new houses for just two or three days. It became the worst of the worst."

Loans 'designed to fail'

The loans sold on Little Lake Street featured some of the riskiest and most expensive elements available at the time: no down payments, adjustable interest rates capped as high as 14 percent, interest-only or negative amortizing loans and prepayment penalties, which assigned hefty charges for refinancing.

"So many of these loans were predicated on the idea that they would be refinanced," said Kevin Stein, associate director of the California Reinvestment Coalition, which works with nonprofits to counsel distressed borrowers. "These lenders that have gone out of business and bankrupt were making loans that were designed to fail."

It didn't take long for Little Lake home buyers to run into problems.

Several defaulted on their mortgages before their interest rates ever adjusted upward, according to county deeds.

The combination of the banks' loose underwriting, the weakening economy and declining home values trapped many people, Stein said. When housing prices were rising, owners were able to refinance or sell to avoid falling behind on payments. But in a falling

NANCEE E. LEWIS / Union-Tribune

Little Lake Street in the Otay Ranch community of Hillsborough is an epicenter of the county's foreclosure crisis. Some houses have sold at auction for up to 50 percent less than their selling prices in 2004, when they were new. Some homes are vacant, with bank-owned for-sale signs out front.

BEHIND THE STORY

The San Diego Union-Tribune analyzed federal, county, city and private data sets to explore the factors that led to the region's foreclosure crisis.

It reviewed data available through the Home Mortgage Disclosure Act on the 176,000 loans sold in San Diego County between 2005 and 2007. It examined the data to determine which neighborhoods and lenders accounted for the most subprime loans, the risky and more expensive mortgages sold to people with low or inadequate credit.

To delve into why so many homes were repossessed, the newspaper analyzed records on the 4,200 foreclosures in the 30 census tracts that had the highest foreclosure rates. The Union-Tribune chose the tracts based on several other factors, including minority makeup, subprime lending and the use of jumbo loans.

The information was provided by MDA DataQuick, a real estate research firm based in La Jolla.

The newspaper removed duplicate records, inserted hundreds of missing parcel numbers and linked lenders with their parent companies to create a more comprehensive database.

It studied information provided by the cities of Chula Vista and Oceanside to look for patterns among lenders and home builders and determine whether any accounted for a disproportionate share.

The Union-Tribune ultimately decided to focus on the South Bay, and Little Lake Street in particular, because of its prodigious foreclosure counts.

To tell the story behind the numbers, the reporter interviewed more than 60 people, including mortgage brokers, bankruptcy attorneys, credit counselors, law enforcement officials and academics.

The newspaper found nine of the 13 homeowners whose houses on Little Lake Street were subject to foreclosure. Many were initially reluctant to be interviewed.

market, there was no way out.

Mary Ann Erickson helps families struggling with the threat of foreclosure at the San Diego nonprofit Community Housing Works. Time and again, Erickson said, she encounters Latinos who signed up for loans through family members and friends who had little lending expertise.

Most eventually shared their experiences and verified the accuracy of their lending histories, gleaned from county deeds.

"The brokers were totally uninformed," said Erickson, who has reviewed scores of loan packets. "I don't even think these people knew what the repercussions of their deals would be."

Several of the Little Lake Street families said they couldn't remember the names of their mortgage brokers. They were just friends of friends.

Some now question the figures in their loan documents.

Ernesto Guevarra, a health care worker who lost his Little Lake Street house last year, provided the *Union-Tribune* with loan documents quoting finance charges of $4,000 that jumped to $30,000 at the time of signing. Guevarra reluctantly paid the fees by including them in the loan.

He said he was pressured to sign the paperwork despite the sharp increase in charges. He also said his broker quoted a lower interest rate that never materialized, and inflated his bank account balance on statements to qualify for a larger loan -- though Guevarra was unable to provide copies of forged bank statements.

An official at the mortgage brokerage, Millennium Financial and Realty in Chula Vista, said the company never falsified documents or forced Guevarra to sign the contract.

"I think Mr. Guevarra is mistaken about what he remembers," said Eliel Guerrero, Millennium Financial's president.

Guerrero blamed the lender, Argent Mortgage, for providing an incorrect estimate on the original fees. Millennium pocketed $18,600 in the transaction, a 3 percent commission, which Guerrero said is "not excessive."

Mortgage brokers say it's unfair to blanket them with blame.

"Credit was lax," said Ed Smith Jr., president-elect of the California Association of Mortgage Brokers. "The problem wasn't the distribution channel. It was the availability of the loans."

Guevarra is not the only Little Lake property owner who faults others. One accused his seller of swindling his down payment. Several criticized their lenders for not renegotiating their mortgages when they lost work. Others blame the government for lax oversight of the lending industry.

Without documentation and hard evidence to prove wrongdoing, law enforcement officials say it's virtually impossible to conclude who is at fault.

Michael Groch, who heads the economic crimes division for the District Attorney's Office, said his staff is researching and investigating about double the number of real estate fraud cases from two years ago. But Groch is hesitant to say just how large a role wrongdoing and fraud played in the county's foreclosures.

"Sometimes when people are in a difficult financial situation, such as foreclosure or bankruptcy, they look for explanations that aren't as embarrassing as their having made mistakes," he said. "But other times, they are victims of crime, especially these days."

Walking away

Philip and Perlita Bautista scooped up more houses than anyone on Little Lake Street.

The Bautistas bought eight houses in the past five years, mostly in southeast San Diego, Otay Mesa and Chula Vista, according to county deeds. Because some had adjustable and negative-amortizing mortgages, it didn't take long for the couple to fall behind in their payments.

"The payment is increasing and the bank is squeezing," said Philip Bautista, who works as an electrician. "It's pretty horrible. Ten years we worked. All the money we saved, it's gone."

In addition to his Little Lake house, which was rented out, Bautista said he has lost "two or three" others.

He walked away from the Little Lake house when his mortgage payments adjusted upward, and his loans surpassed what the house was worth. In his eyes, he already had paid the bank considerable money -- $28,000 down and two years of mortgage payments.

"That's a lot of money. The bank already has that money," Bautista said. "Now that the house is only worth $300,000, are you still going to pay?"

County records show Bautista refinanced his original mortgage and recovered his down payment 17 months after his purchase.

Like Bautista, Maria Alvarez made decisions to minimize her losses.

Alvarez, a mother of two, bought her house on Little Lake Street as an investment property with a 20 percent down payment. Six months after buying the house, Alvarez refinanced and took out a $95,000 line-of-credit, according to county records.

"We put $100,000 down. We didn't want to lose that," said Alvarez, who defaulted on another house in May. "A lot of people are losing their down payments. Now they don't have anything. My husband and I put it into our business. We survived with that money."

Like Alvarez, several people who pulled equity out of their Little Lake properties say they spent it on business expenses or mortgage payments. Only when prodded, and in one case reminded, did they acknowledge using the money to buy a timeshare, new cars and jewelry.

The most common response to the question of how the money was spent was: "To pay bills." Many could not remember what those bills were for.

Bankruptcy specialists say part of what led to the housing market collapse was systemic. Lenders set themselves up for problems by not requiring buyers to prove they could afford the loans, or to provide traditional down payments.

That stripped buyers of a tangible incentive to stay in their homes. The stigma of foreclosure and damaged credit are real, but temporary.

"Twenty years ago, individuals were doing everything in their power to save their houses," said Radmila Fulton, a bankruptcy attorney. "Now they're more willing to walk away. Why pay now when they can rent for less than their mortgage payment?"

Experts also blame builders and developers for not guarding against speculators.

When the market was at its hottest, some larger builders implemented rules that barred home buyers from selling houses within a year of purchase. But enforcement was spotty, said Russ Valone, a real estate researcher with MarketPointe Realty Advisors.

Oakwood Development, which built the homes on Little Lake Street, did not return numerous phone calls to discuss what safeguards the company may have implemented to discourage speculators.

Growing anger

The widespread failures have fueled a considerable backlash by the masses of people who did not buy property during the boom or who continue to make their payments, even as they escalate. Those taxpayers, many of whom were wary of the creative financing, are resentful about having to fund the federal bailout.

Housing experts say it is important to remember that the easy-credit offers were unprecedented, as was the ebullience of the housing market.

"The banks were giving money right and left," said Vino Pajanor, executive director of the Housing Opportunity Collaborative, who bought a house in Otay Ranch in 2005.

"I was tempted to buy another house," Pajanor said. "I was tempted to the core. Everybody was telling me, 'Vino, you're a fool not to. You have all this equity you're just sitting on.'"

Some of those friends who followed their own advice are now in foreclosure, he said. The failed mortgages and credit freeze have resulted in multitudes of brokers and lenders going bankrupt or closing their subprime operations.

Of the 13 foreclosures on Little Lake Street, three of the original mortgages were handled by First Franklin Financial Corp. It discontinued mortgage lending in March. Two mortgages were sold by San Diego-based Accredited Home Lenders, which laid off about 60 percent of its work force in August 2007, and had a smaller round of layoffs this summer. The rest were scattered among eight lenders.

The *Union-Tribune* analyzed information provided by DataQuick on the lenders who were active in the neighborhoods that had the most foreclosures. The analysis found foreclosures distributed among some the country's biggest lenders: Countrywide, First Franklin, New Century, Washington Mutual and Accredited Home Lenders.

Those names rose to the top for all of the county's hot pockets of foreclosures, from Oceanside to San Marcos and Escondido to Chula Vista.

The blame should be spread all over -- not just to specific lenders, mortgage brokers or buyers, said Ken Andrews, a consumer bankruptcy attorney.

"This is an overall market problem," Andrews said. "People bought homes they couldn't afford with easy money. The entire industry was doing it. Free money is like heroin."

Where are they now

Longtime community members say the South Bay's housing bust has been a deflating experience, prompting many to work multiple jobs and placing strains on marriages.

"People are just trying to hang on," said Aguirre, the National City community development specialist. "It used to be Hummer City. Now it's Toyota Tercel Town."

At least three former residents of Little Lake Street are struggling to keep other houses they bought at the market's peak. The D'Ercoles, the Navy couple, left the state and are renting again. Guevarra, the health care worker, has moved in with his elderly mother.

Several people, including Washington and Spinali, are living in houses they bought years ago with better loan terms.

Virtually all say they've learned from the experience.

Alvarez gave up on a failed business venture installing home theater equipment and is now a loan officer.

"I help my people, Mexican people, and explain to them what happens if they don't make their payments," she said.

Guevarra said he has learned to budget his money. He limits discretionary spending on meals and personal items to $70 a week.

Despite everything that's happened to them, many plan to buy once again. They hope it's soon.

It won't be easy. Mortgage brokers and bankruptcy experts say it takes four to seven years to rebuild credit and qualify for competitive loan terms after losing a property to foreclosure.

As it is, because so many bought their houses as investment properties, or cashed out equity through refinanced mortgages, they likely will have to pay taxes on their unpaid mortgage debt, bankruptcy specialists said.

Since all of them lost their properties before the federal bailout was passed, it's unlikely that they will benefit from its programs.

But people like Guevarra are optimistic.

"I'm still hoping to put my feet back on the ground," he said. "I'm not going to do any refinancing this time. I'm going to be smart now."

■ Staff Data Specialist Danielle Cervantes and Librarian Michelle Gilchrist contributed to this report.