

## Foreclosure filings jump in Mass. as home values soar The Boston Globe

By Kimberly Blanton, Globe Staff | June 18, 2005

The combination of high housing prices, low interest rates, a sluggish job market, and new mortgage products that allow borrowers to stretch their finances to pay for their homes has contributed to a nearly 28 percent surge this year in foreclosure filings across Massachusetts.

The spike in homeowners being taken to court for falling behind in their mortgage payments is one of the results of the 50 percent increase in Massachusetts home prices between 2000 and 2003 -- a bigger rise than in any other state. In 2004, the median sales price for a single-family home in Boston was \$387,400, more than double the US median.

Because of high housing prices, many first-time homebuyers have been using new, risky mortgage products that hold down costs in the early years of a loan, but they can face difficulties if payments rise later. In addition, people who already own homes have been tapping into rising property values to borrow money at historically low interest rates for college tuition, home improvements, credit-card debt, or other financial needs.

Across the country, mortgage debt is growing dramatically, according to Federal Reserve data. Americans took on \$904 billion in mortgage debt last year, \$276 billion more than two years ago. Nationally, the number of homeowners who have fallen behind in their mortgage payments and face potential foreclosure fell slightly during the first quarter of 2005.

But in Massachusetts, the number of foreclosure filings rose 27.8 percent, to 3,740, in the first four months of the year, compared to 2,926 in the same period last year. The largest jump, 49.8 percent, to 367 foreclosures, took place in Suffolk County. In Essex County, which includes Lawrence, Salem, Gloucester, and Newburyport, foreclosure filings rose 40.6 percent, to 440. The data was compiled by ForeclosuresMass Corp., a company that collects information from the state's Land Court, where most of the foreclosure actions against mortgage holders are filed by lenders.

"When you tie all these factors together -- the bubble in the real estate market, the popularity of interest-only loans, the willingness of lenders to give loans without a significant down payment, the lowering of standards for lenders, and the deep desire of people to own something priced beyond their means -- you have a recipe for disaster," said Secretary of State William F. Galvin, whose office oversees the registries of deeds in a majority of the state's 14 counties. "That's what you're seeing in the Land Court."

Once a homeowner is 90 days late on mortgage payments, the lender goes to court to begin taking possession of the property. Foreclosure filings in Land Court do not mean a homeowner is in imminent danger of losing his house. About two-thirds are never foreclosed on, either negotiating a repayment program or preempting seizure by selling the house and paying off the loan.

Falling behind on mortgage payments is often precipitated by a layoff, divorce, or illness. But a new phenomenon is also at work: homebuyers who view the pile of equity in their house as a bank account to pay for credit cards, cars, college educations, or renovations. "Serial refinance" is the mortgage industry's term for people who refinance repeatedly, "stripping" equity from their house.

"It's become easier and easier to pull the equity out of your home and use it for whatever you want," said Jeremy Shapiro, chief executive of ForeclosuresMass. Then, when those borrowers encounter financial problems, they "find themselves with a bigger mortgage over their heads and it's a bigger problem than it would've been."

Frank and Kristina Kehayias used their home equity to buy a pizza parlor in West Bridgewater, near their Randolph home. The middle-class couple recently filed for Chapter 13 bankruptcy protection so they could negotiate to repay their debts in hopes of saving their three-bedroom house. Purchased for \$220,000 in 2000,

it is now worth about \$375,000.

The first time they refinanced, in October 2001, they extracted \$25,000 to pay car loans and credit cards. In February 2003, they took out \$20,000 to help finance the restaurant. It flopped, losing money that year. Deep in debt and further behind on bills, the couple refinanced again last year, taking out \$40,000 to pay pizza-parlor vendors and catch up on past-due household bills. All the refinancings boosted the size of their home loan, and their monthly payment as well: to \$2,700 from the original \$1,600. "We absolutely made very poor decisions, using our house to dig ourselves out of debt," Kristina Kehayias said. "But I honestly feel like they prey on you. 'We can save you,' they say, so you think it's going to be a quick fix and you can refinance in a couple of years. But you can't."

The first step in foreclosure is a "notice of intent to foreclose," mailed to the homeowner by the bank or mortgage company. Next, the bank is required to advertise the foreclosure publicly in one local newspaper and send the homeowner a copy of the published ad. Once Land Court determines the borrower is not in the military -- a 1940 federal law prevents seizure of houses owned by military personnel on active duty -- the lender is free to foreclose.

The mortgage industry sees no systemic problems. In 2004, loans that were in foreclosure amounted to just 1.15 percent of all loans nationwide, below levels in 2001 and 2002, according to the Mortgage Bankers Association. "If you report that the number of foreclosures is up, it's equally responsible to say the percentage of total loans in foreclosure are either even or falling," said Kevin Cuff, executive director of the association's Massachusetts affiliate. "I hate the sky-is-falling attitude surrounding" mortgage lending, he said.

Jay Brinkmann, a Mortgage Bankers Association economist, said the rise in the number of mortgages entering foreclosure in Massachusetts is attributable to a lag in the recovery of the state's job market, compared with nationally. "We're not going to see a rebound until we get back to the jobs numbers we saw earlier in the decade," he said.

Jeffrey Kitaeff, a bankruptcy attorney in North Andover, said foreclosure "is going to soar even more" next year because of ever-mounting credit card debt. Since 1990, the average household credit-card balance has more than tripled, to nearly \$9,400. Kitaeff has many clients who have met their credit card payments by diverting funds from the mortgage.

"A lot of people don't have any money. Their savings account amounts to two hundred bucks, and they're living week to week," Kitaeff said.

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