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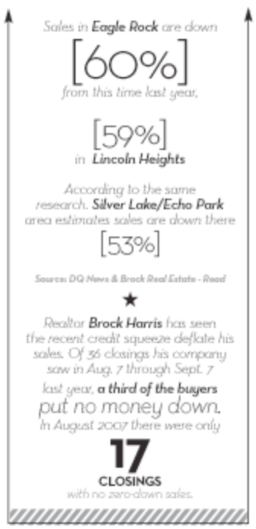
Sub-Prime Lending Pain, The Sequel

While the whole New Eastside has been rocked by the loan crisis, one Boyle Heights woman's hurt tells a particularly haunting story

~ By BOBBI MURRAY ~



The summertime collapse of the sub-prime mortgage market buckled knees on Wall Street and has most New Eastside homeowners worried about potentially plunging real estate values.

But Boyle Heights resident Cynthia Szukala faces a more immediate sub-prime nightmare: foreclosure and the loss of the home she bought with her husband Raymond in 1998. Szukala, 59, signed on for a loan in 2005 to refinance the property on Morrow Place in Boyle Heights.

Most discussion of the sub-prime mortgage implosion focuses on new home loans, but Szukala's loan problems may be more typical. The Center for Responsible Lending noted in its report "Losing Ground: Foreclosures in the Sub-Prime Market and Their Costs to Homeowners" that from 1998 to 2004, the majority of sub-prime loans went for refinancing, putatively to lower monthly mortgage payments. More recent CRL analysis

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shows only 9 percent of sub-prime loans going to first-time buyers.

The Szukalas had already refinanced in 2004 with a conventional loan. In late 2005, Szukala says, the broker that had arranged that loan began calling again to offer another. Szukala's husband Raymond, a Korean War veteran, was suffering from respiratory failure and cancer. Initially, the couple rebuffed their broker's calls. But "he kept pestering," according to Cynthia Szukala, until her husband relented and the broker came over to make a new loan. "We were told this would bring our mortgage down to $1,000 from $1,200," Cynthia Szukala says.

Angelica Rubio, who runs the economic literacy program at the East Los Angeles Community Corporation, says the couple was misled by its agreement with the broker. In actual terms, the loan requires a $2,000 monthly payment which covers only the interest. The interest rate will readjust in the spring, Rubio says, and could then jump up to 10 percent.

And on "October 24th, 2:22 p.m., 2006," Cynthia Szukala says, her eyes bright with tears, her husband died – seven months after the loan transaction. Raymond Szukula's pension, plus other odds and ends, leaves Cynthia's monthly income near $1,900. She hasn't made a mortgage payment since January. Chase, which now holds the loan, has moved to foreclose, but has given a one-month extension, during which it may be possible to renegotiate the terms.

>> The sub-prime mortgage crash has cooled many of the once red-hot local markets.

Housing sales in such neighborhoods as Eagle Rock, Highland Park, Silver Lake and Echo Park have cooled. Throughout the city, home sales are down by 50 percent since August 2006, according to HomeData Corp.

"There's a real problem with credit," says Dolores Conway, Director of the Casden Forecast at USC Lusk Center for Real Estate. People don't qualify for loans anymore, she says, because lenders have become tougher in assessing a borrower's ability to pay than they were before the sub-prime crisis. Borrowers have to "qualify under the old rules," with a 10 percent down payment and income verification, Conway says. That keeps the median housing price is high, she says — "People under the $500,000 range don't qualify."

The sudden tightening of lending standards is quite a turnaround from the loan market that precipitated the present real estate slide. At this time last year, credit was abundantly available through sub-prime loan products offered by such companies as Orange County's New Century Financial Corporation and Ameriquest, both of which went bankrupt earlier this year.

New Century and Ameriquest were the largest originators of so-called sub-prime loans, usually, but not always, as in Szukala's case, offered to people with shaky credit.

Mortgage companies frequently used teams of brokers and "boiler room" telemarketing techniques to market such products as so-called "2-28 loans." With a 2-28 loan, the borrower pays a low introductory interest rate for two years, then faces a sharp adjustment, almost always upward, for the next 28 years.

Consumer advocates have criticized New Century and other sub-prime lenders for such "exotic" loans and for shoddy income verification on prospective borrowers. The practices lured people who could not afford it into the housing market – and into financial trouble, critics say.

But the mortgage companies had little incentive to change; the real estate market was hot and mortgage companies sold off the loans right away, spreading the lenders' risk. Szukala's loan, for example, changed hands five times before landing with Chase, according to the East L.A. Community Corporation.

Wall Street firms bundled the sub-prime loans, as well as conventional ones, into securities for sale to investors. It was a new source of revenue for Wall Street investment houses casting around after the tech bubble burst in the late Nineties, the Lusk Center's Conway says.

Borrowers often assumed they could handle the anticipated mortgage payment spike in the 2-28 loans as housing prices quickly appreciated earlier in this decade, adds Conway. But the market began flattening in 2005, leaving borrowers with loans that exceeded the value of their homes. Investors returned the dud loans to the originating companies, leading to the rash of mortgage company bankruptcies that have rocked financial and housing markets.

Some analysts say it may be 18 monthsbefore the local market picks up again.

>> Meanwhile, Szukala worries about her immediate future. Rubio says, yes, consumers should look carefully at their loans – that's why her organization runs an economic literacy program. But someone who doesn't deal with such finances every day may easily misunderstand the loan terms and want to "trust the people that [they are] dealing with. I see them as preying on a target population – they wouldn't do it to people who are more sophisticated.

Szukala says the broker "took advantage. Not only was my husband a senior citizen. He was dying." ★

Bobbi Murray, a 2002-2003 criminal justice fellow at the USC Annenberg Institute for Justice and Journalism.

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