



DEFAULT POSITION

The cost of America's subprime mortgage crisis is clear in Youngstown, Ohio, where not only individuals but whole neighbourhoods are under threat.

By Jonathan Birchall

Tiffani Simms is moving out. The ground floor of the house on Millet Avenue on the west side of Youngstown, Ohio, is strewn with packing cases and clothes. Someone has been sleeping on the couch. And her five-week-old baby is napping quietly in her crib among the chaos.

The two-bedroom wooden house stands on a street of small but wholesome-looking American family homes with porches and small front lawns, in an area that was once an enclave of east European families whose men worked at a nearby steel plant.

Today, the west side is one of the few inner city neighbourhoods in Youngstown

that is holding itself together, in a sea of terrible urban decay unleashed by the closure of the city's steel mills 30 years ago.

In the worst neighbourhoods, on the crime-ridden south and east sides, decrepit houses stand between empty weed-covered lots where others once stood before they were burnt or demolished. On Millet, the houses are occupied and generally well maintained, and there's a Sparkle supermarket on a nearby corner. "It's a wonderful area," says Tiffani.

But less than two years since moving in with her husband, Erwin, and two daughters, Tiffani and her family face eviction, after defaulting on their subprime mortgage

— a small part of a wave of foreclosures working their way through the elegant Mahoning County courthouse in Youngstown's desolate downtown.

Ohio is sixth in the national table of home foreclosures, with one in 82 households affected in the first six months of this year, according to data from RealtyTrac. That compares with one in 81 homes in Florida, and one in 69 in California, states that led the housing boom. But Ohio's rust-belt cities such as Youngstown, Cleveland and Akron are at the centre of the crisis in subprime lending — loans made to poor and low-income buyers like Tiffani that ultimately charge higher rates than other mortgages.

PHOTOGRAPH BY KEN BLAKE

More than 18 per cent of Youngstown's mortgages are subprime, above the national average of around 15 per cent, according to figures from First American Loan Performance. The city's foreclosure rate on subprime lending is one of the highest in the country, at more than 12 per cent.

In Youngstown, it is a nickel-and-dime crisis by the fevered standards of California or Florida's inflated house markets. The typical Youngstown house price in 2006 was around \$80,000; the west coast equivalent would be about \$536,000, while the national median home price was \$185,000. But if the numbers are small, the threat to the city as a whole may be far greater.

These are not issues that Tiffanii Simms is really aware of. I went to visit her one weekday morning with Rose Carter, a Baptist minister at the Christian Revival and Discipleship Center on the city's south side. Carter is helping to resettle the family. Tiffanii, an active church member, was upset not only about having to move out, but also about the state of the property.

"The big drainpipe from the bathroom upstairs leaks water all over the basement," she says. "And most of these electrical outlets don't work. When I put on both air conditioners, the fuse blows. They said they'd fix it up, but they didn't."

She bought the house from Neo's Homes, a Youngstown company that says it specialises in buying run-down homes, renovating them and making them available to buyers who might otherwise have difficulty getting a mortgage. The company, which advertises on local television and on billboards around the city, boasts of "No Money Down" terms for those with a bad credit record.

The Simms fitted the bill. The couple had to leave another house on the troubled south side in 2004 after they defaulted on a mortgage in her husband's name, and wanted to find another home. Tiffanii says: "I guess we had the notion of having our own home, and we don't have to worry about no landlord, and being a young couple and wanting something of our own."

She is not sure how much she paid for the house, or of the size of the mortgage she co-signed with her father. She also had to check what the monthly payments were supposed to be - \$411 on the loan at the 9.35 per cent rate fixed for the first two years, before adjusting upwards to track the market - from a file of documents among the boxes piled up by the sofa.



'We had the notion of having our own home, being a young couple and wanting something of our own'

Tiffanii Simms (right)

Tiffanii, who had a clerical job at the local newspaper at the time, still managed to secure a \$47,000 loan from the Texas-based Aegis Mortgage Corporation, one of two national lenders that filed for bankruptcy in August. She bought the house on Millet for \$56,000 in December 2005. All they had to pay, she says, "was \$250 for the appraisal fee". That meant, although she didn't know it, that the mortgage broker who booked the loan had no fiduciary obligation to look after her best interests - which is the case with around 70 per cent of subprime lending.

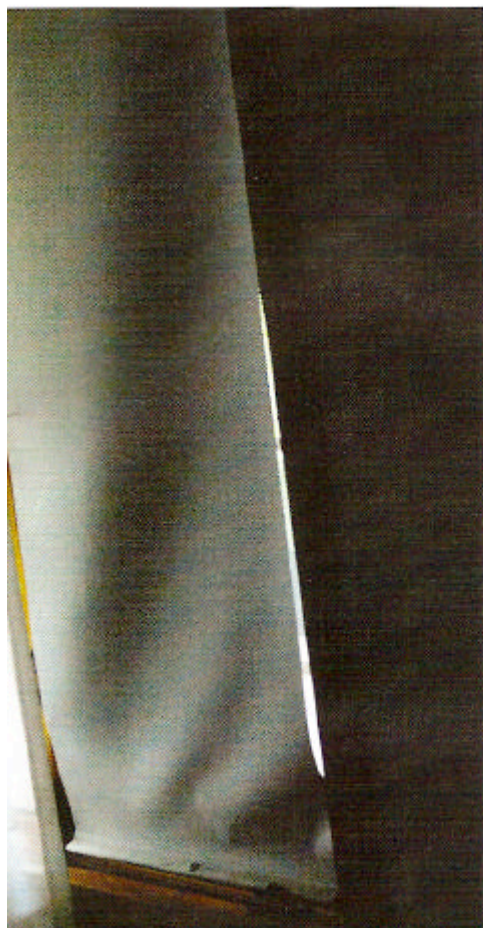
The seller, Jason Neapolitan of Neo's Homes, denies giving the Simms any guarantees about the property being repaired

after sale. "There was nothing ever said like that. A lot of times these people just don't want to pay and they'll say anything rather than come up with the money," he tells me.

He also says he had no involvement in arranging the mortgage, but gives all his clients "a list of three or four brokers to call". However, to assist the Simms with the sale, Neapolitan did lend them a further \$2,800 under an additional 30-year loan secured against the property, according to loan documents, although he says he did not recall the exact circumstances of any second loan that might have been made.

Neapolitan complains that he is set to lose his \$2,800 loan to the couple: "I know

High price: both Rose Carter (left) and Tiffanii Simms (below) have struggled with their mortgages



The mayor is also trying to shake off Youngstown's reputation for shady dealings, epitomised by the 2002 jailing of Jim Traficant, the area's Democratic congressman. Traficant was imprisoned for eight years on corruption charges as part of an FBI investigation into organised crime links in the city.

Mayor Williams, Youngstown's first black mayor, who was elected as an independent in 2005, hopes that the subprime crisis, while challenging, will be just a "blip" compared with the upheavals of the past three decades. But if there is a deeper impact, he says, it will be on areas such as the west side.

"Those are neighbourhoods where there has been stability. They're nice streets. And if one or two homes fall prey to foreclosures and become vacant, that could push the neighbourhoods to become less stable."

Cherie Howard, an attorney at Northeast

Ohio Legal Services, says the housing disaster has been exacerbated by predatory lending practices that now threaten recovery efforts. She says abuses include selling costly home loans to pay for supposed renovation, or to consolidate credit card and other debts. Alternatively, unscrupulous developers seek to "flip" properties at inflated prices through a sale to an unsuspecting buyer who has no chance of affording the mortgage.

"They target someone who has never been a homeowner, has always been a renter, who will

be induced by saying that this is your opportunity to have your slice of the American dream," she says.

In a bitter twist, Rose Carter, the sympathetic minister helping the Simms family, is herself trying to avoid foreclosure on a property she owns in Liberty Township in the north of the city. Liberty, about 20 minutes by car from Millet Avenue, is a suburb of large, prosperous-looking houses. Rose bought a spacious home there for \$171,000 in December 2004 to share with her daughter, son-in-law and grandson with a \$133,000 subprime mortgage from CitiMortgage.

Rose, who had recently retired, made a down-payment of more than \$15,000 and

was offered a classic "2/28" adjustable rate mortgage - with two years at a fixed 7 per cent that kept the payments around \$800, followed by a move to adjustable market-linked rates.

As a former bank loan officer, Rose says she wanted to avoid an adjustable rate, but was told she had no choice given her circumstances. She also thought the rate would reset over three years, rather than six months. Then her daughter got divorced, her 96-year-old father passed away and she discovered that she was not eligible for the pension she had expected, as the monthly payments jumped rapidly, from \$852 to \$1,595.

"I sat down in the living room and I cried," she says of her decision to abandon attempts to stay afloat. Now she hopes that by talking about what happened to her, others will understand the need for proper financial education. She has negotiated what's called a "short-sale" from the bank, with the house handed over to a real estate agent and priced at \$129,900. Her equity investment in the house is lost.

But there is more than money being lost in Youngstown, and in the largely poor African-American community that makes up 45 per cent of the city's population. I went with Rose to see the small house where she grew up on Sycamore Street on the north side of Youngstown.

Her father bought the house with money he earned working for 47 years at the Youngstown Sheet and Tube works, whose closure in 1977 delivered a crippling blow to the city. "This was a thriving street, there were doctors, attorneys - we were the only poor people that lived here," she says of growing up in the 1950s.

On Sycamore, one entire side of the street has gone, the old wooden houses replaced by overgrown lots. Her father's house was sold for \$68,000 in September last year. But it has since lain unoccupied, and foreclosure proceedings began this summer. Its metal cladding has been pulled off, and the slate paving stones of the front path taken away.

"My father saw this as his legacy," Rose explained to me as she stood on Sycamore, fighting back tears. "His family came out of slavery, he came up from Alabama, and this was all he worked for. Look at it. It was a nice house. He worked for 47 years and this was his legacy for us. And it's gone." ■

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"I'm going to lose the money that I loaned. I'm taking a hit [along] with the lenders."

Further up the street, 58 Millet is also in foreclosure proceedings, after being sold to its current owner by Neo's Homes for \$65,000 in June last year. There are also six other "for sale" signs out on a street of 66 houses - driving down prices in one of the city's few still-functional neighbourhoods.

The crisis is unfolding as Youngstown, under its 36-year-old mayor Jay Williams, tries to revitalise itself. His Youngstown 2010 plan acknowledges that the city is still shrinking, and seeks to focus development on stable neighbourhoods - while in effect retreating from those that cannot be saved.

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