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Effects of foreclosure explosion ripple out

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Ron Warren is done with the American dream.



Ron Warren is behind on mortgage payments on his west Omaha home. "These big guys just feed off the hopes and dreams of God-fearin' Americans and never really take into account that people are subject to be led astray and get deeper and deeper into a situation they can't get themselves out of," he said of lenders.

A first-time homebuyer in 2005, the 41-year-old systems analyst now faces a future much different from what, he says, everyone from lenders to home improvement stores sold him during the housing boom.

Unable to make his mortgage payments and needing to help his ailing mother, Warren got a job transfer to Maryland, leaving his west Omaha multilevel home sitting vacant, for sale and several months past due on the mortgage.

Bad breaks and bad decisions - by lenders and, Warren acknowledges, by him - have led him to the brink of foreclosure and bankruptcy.

"These big guys just feed off the hopes and dreams of God-fearin' Americans and never really take into account that people are subject to be led astray and get deeper and deeper into a situation they can't get themselves out of," Warren said. "It's kind of sad that the government doesn't step in and monitor that stuff a little bit."

Poor mortgage lending practices are at the root of the current credit crisis, jeopardizing the nation's economy.

Struggling homeowners are watching to see if and how the government will help them.

Those who didn't over-reach when it came to borrowing and who faithfully make their mortgage payments every month see it another way: Will they foot the bill for others' mistakes?

While foreclosures in Nebraska and Iowa are among the lowest in the nation, the trend is troubling. In Nebraska, for example, August foreclosures were four times what they were in August 2005. And people on the front lines say the problem, if not addressed, could have serious, communitywide implications.

"It's going to touch everybody," said Donna McFadden, program director for Family Housing Advisory Service's home ownership program. "It's not going to stop just with that family that loses a home."

Nebraska ranked 40th and Iowa ranked 39th in the rate of foreclosure filings for the month of August, according to RealtyTrac, a mortgage research company. Nebraska had 385 foreclosure filings, which include default and auction-sale notices and bank repossessions, and Iowa had 666.

In August 2005, the first year RealtyTrac started compiling figures, Nebraska had 81 foreclosure filings, and Iowa had 95.

By comparison, California had 101,724 filings in August, one-third of the national total and the most of any state.

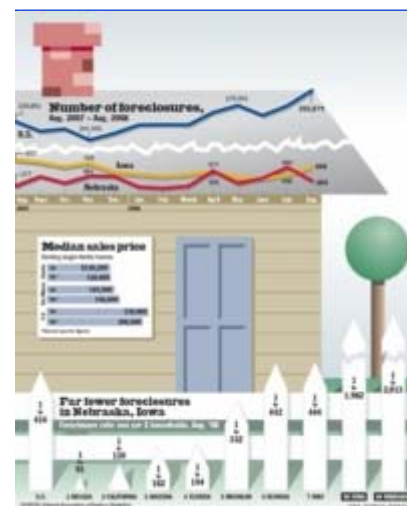
The Midlands' foreclosure problem may be less than that of many states, but it has ripple effects that encroach on the community and on homeowners who aren't in trouble, say bankruptcy lawyers, social service groups and real estate professionals.

Weeds grow around abandoned homes. Vandals or thieves deface or break into houses. City and county governments that planned on taxes and fees paid by those one-time homeowners turn to other taxpayers to make up the lost revenue.

Lack of maintenance and increased crime can force home values downward. And because foreclosures often sell for below-market value, they also lower the comparable sales figures that appraisers use in setting a home's value. Banks use those appraisals to help determine how much to loan to prospective buyers.

Kate Owen, a bankruptcy attorney in Papillion, said the number of cases she handles related to foreclosure has doubled in the past year.

People hope to save their homes by filing Chapter 13 bankruptcy, which allows them to keep property and to pay debts



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over time, she said.

"I think more people are getting foreclosed on than many of us realize," Owen said. "I think there's a stereotype of a bankruptcy or foreclosure that people were foolish in buying more house than they could afford, or they're poor. There are families facing foreclosure that are above the state median income."

The state's median income is \$69,510 for a family of four.

Owen said homeowners in trouble include middle- to upper-class people, what she calls the "average, apple-pie, American family."

"They got overextended for whatever reason," she said. "It just takes one job loss, or even with great medical insurance, one catastrophic medical event."

Banks hire Mary Packett, a Century 21 Dundee Realty agent, to get "broker price opinions," or comparable market analysis, for properties facing foreclosures.

"Years ago I used to get one or two a month," she said. "And now it's 10 to 15 to 20."

In some areas, homes in foreclosure go for extremely low prices, while regular-priced homes don't sell at all, Packett said. Banks accept low prices because they're trying to recover whatever they can, which forces other sellers to lower their prices, she said.

"What few buyers we have are buying the cheapest property they can get."

Frequently, she said, buyers are investors who end up renting out the homes. That often can have a negative effect on the neighborhood and on home values, Packett said.

"When you have rentals - there are exceptions to the rule - but usually the people who get in them don't take as great of care."

And the problem is not just in certain parts of town, she and others said.

"We have two right now in our immediate vicinity that are vacant and foreclosed, and this is Dundee. And I'm talking two in one block," Packett said. "It is going to absolutely cripple people. There has got to be help for people."

Not everyone agrees that the foreclosures are affecting or will affect Omaha home values.

Mark Hart, immediate past president of the Omaha Board of Realtors, said Omaha's strong economy stabilizes home values.

According to the National Association of Realtors, the median sales price of existing single-family homes in the Omaha metro area declined 0.2 percent in the second quarter of 2008 compared with the second quarter of 2007 - from \$138,300 to \$138,000. The median sales price was \$136,200 in 2005, \$138,400 in 2006 and \$138,000 in 2007.

Those are mild fluctuations compared with many metro areas, which have reported double-digit swings.

In California, for example, the Sacramento-Arden-Arcade-Roseville area recorded a 35.6 percent drop in the median sales price for the second quarter of 2008 compared to 2007. That was the steepest decline in single-family home prices in the country.

John Bredemeyer, president of Realcorp Inc., a full-service real estate appraisal firm in Omaha and Nebraska City, said foreclosures have not harmed home values overall because there are too few and rarely any neighborhood clusters.

Rather, he said, any price depreciation is the result of three factors: tightened lending standards, which shrinks the pool of prospective buyers; the general oversupply of homes in the market; and today's low consumer confidence because of the overall national economy.

Home values aside, many experts say the human toll for millions of people like Ron Warren is the costliest.

"It's not just somebody losing their home," said Robert Wiebusch, operations director of NP Dodge Real Estate. "It's a family that could have gotten torn apart. Credit is destroyed. Some of these people may not become homeowners for decades after this."

Several real estate agents and social service officials said that one of the more lingering consequences is psychological.

"Some people who had money problems before thought, 'This is my chance to start over, we're building equity,'" said Paul Cummings, a real estate agent hired by banks to handle foreclosures. "They end up in foreclosure. Now they are going to be where they were before they bought the house. They lose hope."

Warren said he isn't watching to see what happens with the bailout legislation.

"They kind of sugarcoat it so you can live the good life up front, but on the back end you end up selling your soul to the devil.

"I'm not buying that anymore."

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