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— LOCAL

What a Relief: Reverse mortgages help seniors out of predatory loans

by Andy Phelan
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They could have just come to widow **R.L. Clark's** Decatur home in the dark of night, held her up at gunpoint and made off with her cash.

Instead the thieves stole from the 65-year-old retired hairstylist each month, slowly bleeding the senior citizen of thousands of dollars.

Predatory lenders with their toxic mortgage products, the cause of so much destruction in the national and state subprime mortgage meltdown, got a hold of Clark and she nearly lost her home.

But now, thanks to the DeKalb branch of Atlanta Legal Aid Society's Home Defense Program, Clark is free and clear.

Once on the verge of losing her home of 31 years to foreclosure on the steps of the county courthouse, Clark is staying in the three-bedroom ranch she and her husband bought in 1977 – and where the couple raised their three children.

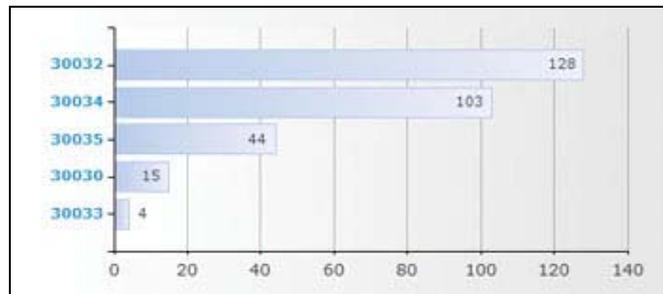
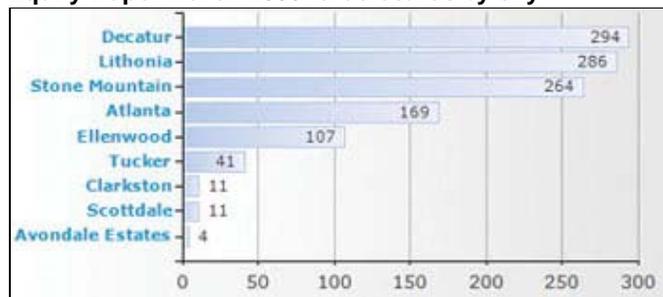
And it's giving her a new lease on life.

"What a relief," said Clark, wiping away a tear as she signed her new deal. "I can finally sleep tonight."

Using what is called a reverse mortgage, Atlanta Legal Aid convinced the servicer of Clark's loan to take a lump sum in order to get her from under the burdensome payments.

A reverse mortgage, once a way for homeowners 62 or older with equity to get a

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little extra cash during retirement, are now used more and more to prevent senior citizens from being foreclosed on when they can no longer afford high-interest payments.

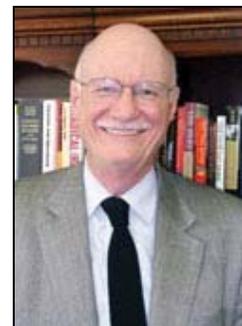
They are called reverse mortgages because the bank pays the homeowner instead of the other way around. They require no monthly payments as long as the person lives in the home, but they must be repaid in full, including interest, when the homeowner dies or their heirs sell the house.

Clark's story is becoming all too familiar in DeKalb, the state and the nation – seniors, especially minorities, pursued by predatory lenders who convince elderly homeowners to agree to refinance loan terms they cannot possibly afford.

Although no one has data on subprime mortgages or foreclosures by age, senior citizen advocates say the 30 million homeowners in America who are 65 and older have been regularly bombarded with offers from subprime lenders with risky refinancing terms.

In Clark's case, she was taken advantage of by Mortgage Lenders Network USA of Alpharetta, said **William J. Brennan Jr.**, program director of Legal Aid's Home Defense Program in downtown Decatur.

"They [the loan originator] not only incorrectly stated Mrs. Clark's income as \$3,000 a month to qualify her for the loan, but then charged her an outrageous interest rate" said Brennan, a 40-year veteran of the fight against fraud and predatory lending. "The loan was made in violation of Georgia law, violated the Fair Business Practices Act and the Unfair and Deceptive Trade Practices Toward the Elderly Act," Brennan asserted.



William Brennan Jr.

In November 2006, the lender strapped her with a \$121,000 balloon loan at 10.6 percent interest with 359 monthly payments of \$1,055 and her last payment of \$80,000."

Property taxes, HOA dues and insurance boosted Clark's payments to \$1,257.74 a month. Her monthly gross income from Social Security and work as a part-time hairstylist was \$1,265.75, leaving her with just \$11.01 a month to pay for utilities, groceries, gas and health care.

In other words, the cost of the predatory mortgage and other expenses related directly to the house, consumed 99.37 percent of her monthly income. Lenders recommend housing expenses be no more than 30 percent of a homeowner's income.

"It is just wrong for a lender to make Clark an unaffordable mortgage loan that will cost her her home," wrote Brennan in a letter to Clark's lender. "Everyone in this scenario is doing well but Mrs. Clark," said Brennan.

Before she knew it, Clark owed more than \$140,000 on a home she originally purchased for \$41,000. The house is now appraised for \$173,500.

Mortgage Lenders Network USA, at the time it wrote Clark's loan, was the 15th largest subprime lender in the U.S. After receiving cease and desist orders from several states for failing to properly document their lines of credit, Network USA reorganized – filing for Chapter 11 bankruptcy in January 2007.

Mortgage Lenders Network USA's license was revoked in February 2007 after failing to comply with state banking requirements.

The Champion made several calls to Mortgage Lenders Alpharetta office, but their phones are no longer in service.

Saving homes such as Clark's, however, is rare. Although using a reverse mortgage is a

strategy Brennan and his assistants are using more and more to keep seniors in their homes – 16 in the past two-and-a-half years – the numbers show Legal Aid needs reinforcements.

According to statistics from Equity Depot, a real estate data tracker, foreclosures in metro Atlanta continue to climb and numbers in DeKalb remain high.

For June, they report that more than 6,000 homes are in some stage of the foreclosure process – a record. DeKalb makes up 1,150 of the 6,000 or about 20 percent. And of those 1,150, nearly 130 are in the same zip code – 30032 – as Clark's home.

One of the reasons predatory lenders could offer Clark a loan that hurt her financially was that in 2003 the General Assembly overturned key provisions in the state's Fair Lending Act, which had just been passed in 2002.

One of the main stipulations of the Act was that lenders had to prove that a refinancing of any home loan less than five years old had to offer a loan product that gives "a tangible net benefit" to the borrower. Under this requirement, a loan may not have an interest rate above certain set levels.

Lenders selling predatory subprime loans spent thousands of dollars in Georgia lobbying state lawmakers to overturn parts of the Act because it essentially made their products illegal here.

Voting records from 2003 show the only DeKalb representatives who supported keeping the Fair Lending Act in its original form were **Karla Drenner, Michelle Henson, Randal Mangham, Howard Mosby** and **Pam Stephenson**. Mangham and Stephenson, whose south DeKalb neighborhoods have been peppered by foreclosures, tried to amend SB 53 that overturned much of the Act but they did not have the votes to carry the day.

Some critics of reverse mortgages point to the fact that the amount a homeowner owes grows larger over time, and it can severely limit any benefit to their heirs.

Jimmy McGee III of Financial Freedom Senior Funding Corporation, who helped Mrs. Clark with her loan, said reverse mortgages offer more flexibility than some people might realize.

"The children, if they wanted the house, have six months to decide what to do," said McGee. "They can keep the home by taking out a mortgage to pay off the loan, they can sell the house to pay it off or do nothing and allow the bank or lender to take it."

McGee said contrary to what some people believe, a homeowner with a reverse mortgage can never be upside down in their home – or owe more than it's worth.

"Reverse mortgages have been around for more than 20 years, but they've become more popular the last three or four years," said McGee.

For Clark, she hopes to be around for another 20 years to enjoy her home, her children and her grandchildren.

"I know I'm one of the lucky one to be able to keep my house," Clark said. "It's a blessing."

For more information about *The Atlanta Legal Aid Society Inc. Home Defense Fund*, call William Brennan or **Nancy MacLeod** at 404-377-0705, ext. 236 or 279.

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