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Mortgage crisis cuts both ways

BY MONICA HATCHER

She was only 21 when she decided to become a mortgage broker. A newlywed, Michelle LaPiana felt that her own broker had misled her and her husband during the daunting purchase of their first home in Hialeah.

She claims she fell prey to a bait and switch. The closing costs were nearly double what the couple previously had been told. By the time they sat with a title agent to sign the loan documents, it was too late to walk away without losing thousands of dollars.

"The closing costs were \$9,680," recalled LaPiana, now 38 and divorced. "I remember everything. I even remember my closing agent's name."

The incident angered her but also motivated her to help other people navigate the potentially treacherous process. A graduate of Hialeah-Miami Lakes High, she skipped college, got her license and launched what was a rewarding and successful career in mortgage lending.

Now, 17 years later, the former president of the Miami chapter of the Florida Association of Mortgage Brokers and once-ambitious subprime account executive finds herself broke and in foreclosure.

The single mother of two insists her story is not one of the recklessness, greed or fraud that has plagued the mortgage business and sparked the credit crisis on Wall Street.

Instead, she says, she is part of the damage left behind by an investment frenzy and a wave of opportunists who hijacked her profession and ran it in into the ground in just a few short years.

"I feel I was a victim, but I feel government is not going to help people like me," LaPiana said.

LaPiana says she cannot find work in South Florida because of a new stigma attached to having worked in the world of subprime lending. Reports of felons having flooded the business during the boom years have not helped.

"They look at me as if ` because of her this is why the economy is the way it is, ' LaPiana said.

The stigma may be worse in South Florida -- often described as ground zero for

subprime loans, or high-cost loans extended to borrowers with poor credit. Mortgages requiring no proof of income or assets were also widely sold. The high default rate among these loans is blamed for sparking the credit crunch that began a little over a year ago. Lenders began restricting access to credit to prevent future losses, leading to an economic slowdown.

But LaPiana says her role was less direct because she never sold a home to a borrower who couldn't afford it.

Brian Kettenring, a head organizer with Florida ACORN, the Association of Community Organizations for Reform Now, a national grass-roots community activist organization, agreed that many real estate professionals are being unfairly painted with the same brush.

"There was a fair amount of predatory lending by brokers and lenders, but there are a lot of good people who work in the industry and too many of them are being hurt in the destruction of the industry as a whole," Kettenring said.

WAVE OF FAILURES

The ripple effects of the credit crunch hit an apex in recent weeks with the failure of the venerable investment bank Lehman Brothers; the near-collapse of American International Group, the world's largest insurance company, and Washington Mutual's seizure by federal regulators and subsequent sale in the biggest bank failures in U.S. history.

LaPiana said nobody foresaw the impending catastrophe from their respective corners. She views herself as among the tiniest of conduits in the vast matrix of players wheeling and dealing in the era of cheap money that made the housing boom possible.

After more than a decade of selling traditional mortgages, LaPiana was swept up in the excitement of new, innovative loans that made homeownership possible for millions of Americans.

In 2001, she joined Fieldstone Mortgage's subprime division as a wholesale account executive. She would hold the same position at a string of other wholesalers over the next six years, specializing in high-cost and highly profitably subprime mortgages.

Wholesale lenders deal with mortgage companies and brokers who make their cash available to home buyers by immediately funding their loans. They do not deal with borrowers. Once the loans are brokered, the wholesalers, typically thinly capitalized companies, sell the debt to commercial banks, other lenders or investment houses, like former brokerage Bear Stearns.

"Subprime loans were the hot commodity of Wall Street. That's all everybody wanted,"

LaPiana said.

As an account executive, her job was visiting brokers and selling the loan programs offered by her company. Wholesalers generally compensate account executives based on the volume of business they bring to the company. For each million dollars LaPiana sold, she earned a half percentage point, or \$5,000. In the peak years of the boom, she says she did an average of five deals a day. Sometimes, her biweekly paychecks topped \$20,000.

"I still have the pay stubs," LaPiana said ruefully, adding she couldn't toss them because she hopes to once again earn such a handsome income.

THE HIGH LIFE

With her new wealth, LaPiana traveled -- skiing in Colorado and visiting New York City. She bought a top-of-the-line Jeep Commander and, after her divorce, a "dream home" in Kendall where she would live comfortably with her two girls and mother.

"I didn't go overboard," LaPiana insisted, "I didn't buy the two investment properties, the two condos on the beach, but I should have saved more."

Even though she was making almost \$200,000 a year, her competitors, who sold loans requiring no proof of income or assets, were making more. LaPiana said many of the loans she sold didn't ask for proof, but did require a borrower to submit evidence that they had filed an income tax return with the IRS as self-employed.

Such loans have been dubbed "liar loans" in the industry because of the high rate of fraud later found in mortgage applications when the homes went into foreclosure.

It was enough to give her competitors an edge. While LaPiana was pounding the pavements making sales to mortgage companies, many of her competitors were able to do most of their business by phone from their homes, she said.

The subprime lenders they worked for were also among the first to bite the dust when borrowers began defaulting in droves in 2007, she said. Soon LaPiana was jumping from job to job as four successive employers declared bankruptcy or closed their subprime divisions between 2006 and 2007.

Peter Ticktin, a Deerfield Beach lawyer who practices foreclosure defense, said the self-deluded industry imploded because it believed property values would continue rising, eliminating the risk of losses. "What was going on was a systematic Ponzi scheme," Ticktin said. "It wasn't where you had one main character organizing it. It wasn't a conspiracy."

THE FINAL INSULT

LaPiana's last position was with the CIT Group, based in New York, which told its account executives last September they were out of a job.

"That one really hurt because it was like, 'Where do you go from here?' I realized there was a major problem. It all went rolling down," she said.

Almost as fast as the subprime industry itself, LaPiana's life went into a tailspin. She went from making great money to collecting unemployment. Her savings were eaten up by an expensive adjustable-rate loan, a car payment and the cost of supporting a family of four.

Her problems mounted as she struggled to find a job. In July, she woke up one morning and found her Jeep Commander missing from the driveway. It had been repossessed. "I knew it was going to happen," she said. LaPiana made her last mortgage payment in May. The lenders are hounding her out of her half-million-dollar dream. She's had to borrow money from friends.

"When your daughters ask you for money to go to the movies and you tell them . . . I can't. . . ." LaPiana started to cry. "I have no insurance. I make my daughters drink their vitamins in the morning because they know they can't get sick. I teach them how not to get sick."

How does she cope with the stress?

"I smoke and drink a lot of coffee. I don't sleep," she said, wiping tears away.

Kettenring, of ACORN, said his organization was accepting applications for foreclosure prevention counselors at their South Florida office, and most were coming from former brokers.

"It's incredible the number of people who are applying for those positions that have worked in the industry for years," Kettenring said, "We're seeing the near total collapse of the housing industry including the employment of people who worked in the industry."

Despite the trials, LaPiana hasn't given up.

Described by her friends as a self-starter and a fighter, she recently got a license to sell insurance and is trying to build a book of business.

She still stays involved with mortgage lending, keeping up with new regulations. Her brokers license remains valid.