Newsday
LONG ISLAND

SPECIAL REPORT

The Mortgage SQUEEZE

Rising interest rates, economic woes have put more LIers in peril of losing their home A2-5

NEWSDAY PHOTO / KAREN WILES STABILE

Maureen Virga, and her husband Vincent, are in foreclosure proceedings and are in danger of losing their Cape-style house in Levittown.

some owners could be hurt

CASE STUDY: The Virgas

"Every time I turn around and I might see a light at the end of the tunnel, the next thing I know something else is happening." — Maureen Virga

BEFORE FORECLOSURE POSSIBILITY

Total Family Income: As much as $150,000 a year
Mortgage: $2,300 a month
College tuition: $43,000 a year
Electric: $350 a month
Telephone and cable: $140 a month
Oil: $320 a month

NOW

Total Family Income: Maureen is earning about $2,000 a month in Social Security disability. Vincent will begin receiving pension money come February.
Mortgage: $3,000 (includes an extra $700 a month to make up their debt)
Trustee payment: $975 a month
Medical co-payments in 2005: $5,575
Electric: They owe $4,500 to LIPA plus normal payment.
College tuition: $18,000 owed for this school year.
Utility bills: Roughly the same

NEWSDAY PHOTO / KAREN WILES STABILE

Maureen Virga discusses bankruptcy with her attorney, Craig D. Robins, ESQ.

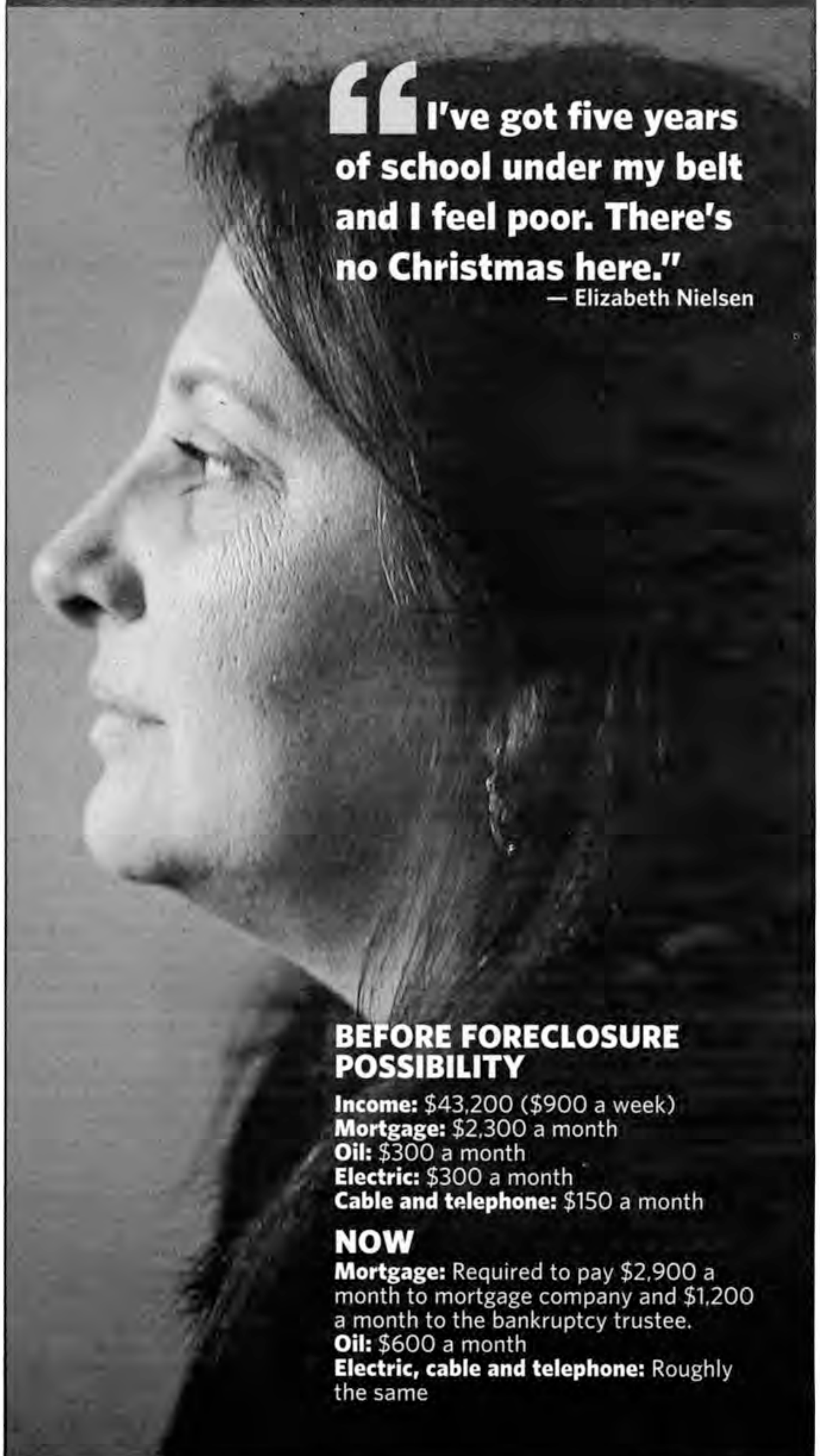
Manhasset. "If they don't have the equity in their houses anymore because they've tapped it out, and values have come down, it will have a trickle-down effect."

More defaults could also result in more people leaving Long Island if they are forced to sell their home, while others work endless hours to make ends meet. Either solution, said the Rev. Thomas W. Goodhue of the Long Island Council of Churches, is not a good one.

"This is just further straining and stretching families on Long Island," said Goodhue, whose programs help people with mortgage payments, heating bills and other costs. "We're seeing folks who have pretty much run out of options."

— RANDI F. MARSHALL

CASE STUDY: Elizabeth Nielsen



"I've got five years of school under my belt and I feel poor. There's no Christmas here." — Elizabeth Nielsen

BEFORE FORECLOSURE POSSIBILITY

Income: $43,200 ($900 a week)
Mortgage: $2,300 a month
Oil: $300 a month
Electric: $300 a month
Cable and telephone: $150 a month

NOW

Mortgage: Required to pay $2,900 a month to mortgage company and $1,200 a month to the bankruptcy trustee.
Oil: $600 a month
Electric, cable and telephone: Roughly the same

NEWSDAY PHOTO / MOISES SAMAN

Elizabeth Nielsen, an elevator repairwoman, is facing foreclosure on her Levittown home.

Roof caving in on

■ Foreclosure notices sharply on rise as Island homeowners increasingly unable to weather financial strain of barely making ends meet

BY RANDI F. MARSHALL
STAFF WRITER

For more than 20 years, Maureen and Vincent Virga both worked full-time as they raised their two children in Levittown and never missed a mortgage payment.

Even with plenty of other bills, they were always able to make ends meet and still sock a little bit away for college tuition and retirement.

Then unforeseen and serious medical problems forced Maureen and Vincent, both 50, to miss work for extended periods during the past three years. With bills piling up and their savings exhausted, the Virgas were unable to make their $2,300 mortgage payments. They ended up in foreclosure and are in danger of losing their Cape-style house.

Now, in a last-ditch attempt to save their home, they are declaring bankruptcy for the second time in two years, hoping to come up with a plan to pay $50,000 in back mortgage costs, $12,000 in back taxes and $10,000 in other debts.

It's not an easy climb out of a deep hole, explained Maureen Virga.

"We were able to budget well, and everything was working fine, but when we hit this brick wall, it was devastating," she said.

More and more Long Islanders are finding themselves in the same financial squeeze as the Virgas — unable to keep up with their mortgage payments. A Newsday analysis of recent foreclosure data shows that the total number of Long Island homeowners who received new legal notices of foreclosure, called lis pendens, rose 75 percent during the past two years.

From bad to worse

And experts warn that the worst is yet to come, particularly in the coming year, as more borrowers see interest rates rise and their mortgage payments inch higher, and as the economy is not expected to gain much ground.

"I see a lot more Long Islanders in danger of losing their homes," said Westbury bankruptcy attorney Craig Robins, who is working with the Virgas. "A lot of people are living at the edge. ... They're not saving that much money but they can afford to make ends meet, but with one financial catastrophe such as the loss of a job, or being denied overtime, or a couple separates, or sickness ... that's it."

The data, which came from Long Island Profiles, a real estate information publisher, also indicate that the problem is far more severe in some of Long Island's lower-income neighborhoods, with Brentwood, with 111 new defaults from July through October, and Hempstead, with 109, topping the list of new notices of foreclosure.

In those four months, 2,971 Long Island homeowners received lis pendens from their mortgage companies or banks, compared with 1,700 in the same period of 2004, according to the Long Island Profiles data. Most of them were likely in default for at least three months before receiving the lis penden notice, according to Long Island Profiles general manager Pat Ammirati. Lis pendens begin the foreclosure process, which, in New York State, can take longer than a year depending on the circumstances.

Experts fear the future

Although the total number of households in danger of foreclosure is a small percentage of the total, the upward trend worries bankers, housing advocates and government officials.

And those people who can't pay their mortgages are finding themselves 40 percent deeper in debt on average than struggling homeowners of just two years ago. The average mortgage default amount has climbed from $202,922 in 2004 to $285,183 in 2006. This number often includes outstanding mortgage debt, delinquency fees and other charges.

The drastic increase in defaults — and, potentially, in actual foreclosures — likely will impact the region's overall economy, as the financial strain on homeowners trickles down to affect their spending in other areas, from paying taxes to spending money on other goods or an evening out. Particular communities with the higher number of defaults are expected to be hard-

See FORECLOSURE on A4

Danger zones
A map details which LI communities experience the most threats of foreclosure. A34

CASE STUDY: Carol Fitzsimmons

PHOTO BY PATRICK OEHLER

Repair bills from a burst pipe have forced Fitzsimmons into foreclosure proceedings.

"I have nothing. My life has literally been turned upside down."
— Carol Fitzsimmons

BEFORE FORECLOSURE POSSIBILITY

Total Income: $160,000
Mortgage: $3,000 a month
Electric: $200
Cable and Telephone: $200
Gas: $200

NOW

Total Income: A third of prior wages
Mortgage: Owes $40,000 in back mortgage costs
Other Expenses: Spent $25,000 on repairs that weren't reimbursed by insurance; $30,000 in legal bills. Fitzsimmons isn't paying utility bills because her home is currently uninhabitable.
Total loss from damage: $300,000

Consumer spending

When area homeowners aren't able to pay their mortgage, experts said, they're not buying much else. So, local shops and restaurants aren't getting their business, and, in some cases, municipalities aren't collecting property taxes, either.

A slowdown in consumer spending, which makes up two-thirds of the economy, hits a region like Long Island hard, especially since it was the housing boom — and the spending that came with it — that primarily propped up the area's economy for the past five years. Until recently, area homeowners borrowed on their homes to buy big-ticket items or renovate, assuming the equity they gained with rising home prices would more than compensate.

Not anymore. Falling real estate prices could have an ugly side effect, as homeowners who borrowed against their equity might have homes worth less than what they owe.

"A lot of homeowners used their houses to buy products such as cars and other things," said Bob Moulton, who heads Americana Mortgage Group in

Homeowners derailed

FORECLOSURE from A2

est hit.

The recent slowdown in the housing market may make the situation worse. In the boom years, homeowners who found themselves feeling pinched had the option to sell. Now, because of the glut of houses on the market and flat or falling prices, it's harder to cash out their biggest asset. The safety net, experts say, is gone. As a result, advocates believe delinquencies will become even more widespread.

"I think what we're seeing now is really the tip of a spreading iceberg," said Pearl Kamer, the chief economist of the Long Island Association, the region's leading business group. "And it's going to affect more than the lowest-income neighborhoods on Long Island. It's going to be a middle-class phenomenon too."

That's what concerns Anthony Graziano, 50. The East Meadow management consultant has never missed a mortgage payment, but even on a comfortable, six-figure salary, he worries each month about making ends meet, concerned most about property taxes. Graziano is also paying college tuition for his eldest daughter, and has two more in high school.

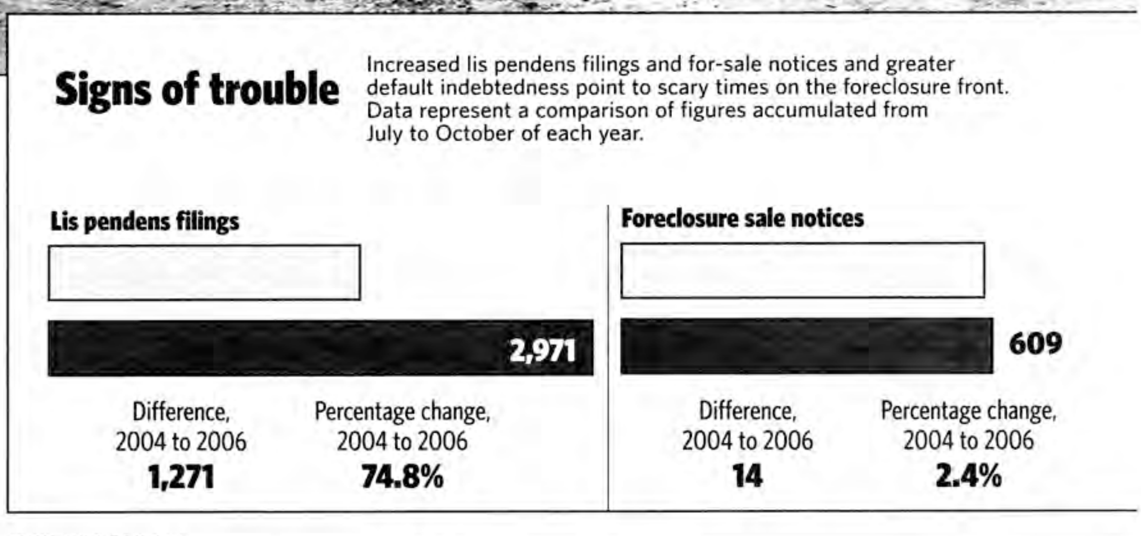
"I say a little prayer every month," said Graziano. "'Thank God I made it through another month.'

"There's just no room for error," he said.

That's particularly true for homeowners in Long Island's lower-income pockets where defaults are highest. Advocates said some borrowers ended up with mortgages from lenders trying to take advantage of them, loans considered "predatory," while others took on mortgage loans they thought they could afford that were probably out of their price range.

"As less sophisticated borrowers entered the homeowners market, they were taken advantage of by unscrupulous lenders out there," said Lynn Law, the director of education and counseling for the Long Island Housing Partnership in Hauppauge. "Or, they may have gotten in over their heads."

Carol Fitzsimmons' house in East Setauket is heading to foreclosure.



Costs outpacing growth

That's not hard to do, at a time when the Island's economy is growing very slowly, and wages and job gains are not keeping pace with rising costs. Long Island's job growth has been mediocre at best, adding just 0.2 percent, or 1,900 jobs, to its payrolls in the 12 months ending in October. And economists argue that the weak economy affects low-income households more, because they're more likely to already be on the financial edge.

"I think this is less about predatory lending and more an illustration of how the economy and the interest rates are impacting people who make less money on Long Island. The slightest hiccup is going to drive people to foreclosure and, worse, homelessness," said Martin Cantor, the chief economist for the Long Island Development Corp. in Bethpage.

The communities affected most by defaults and foreclosures are also those the Long Island economy needs the most if it's going to make further gains, Cantor added.

"These are the very people we need to keep the economy going," he said. "These people, who we need to start earning higher wages, are instead falling out of the economy and losing their homes and that makes it incredibly difficult to come back."

After learning of the increase in housing defaults, Hempstead Mayor Wayne Hall in an interview suggested holding a series of forums around the village to give people advice and options.

The good news is, many defaults never end with an actual foreclosure sale. The Mortgage Bankers Association of America estimates that three of every four defaults end up finding a solution and avoiding foreclosure. Some of those homeowners find a way to work out a plan with their banks to repay their debt, while others sell their homes before foreclosure happens, or declare bankruptcy to stave off the process. As a result, the region's foreclosure rate remains relatively low

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by sudden changes

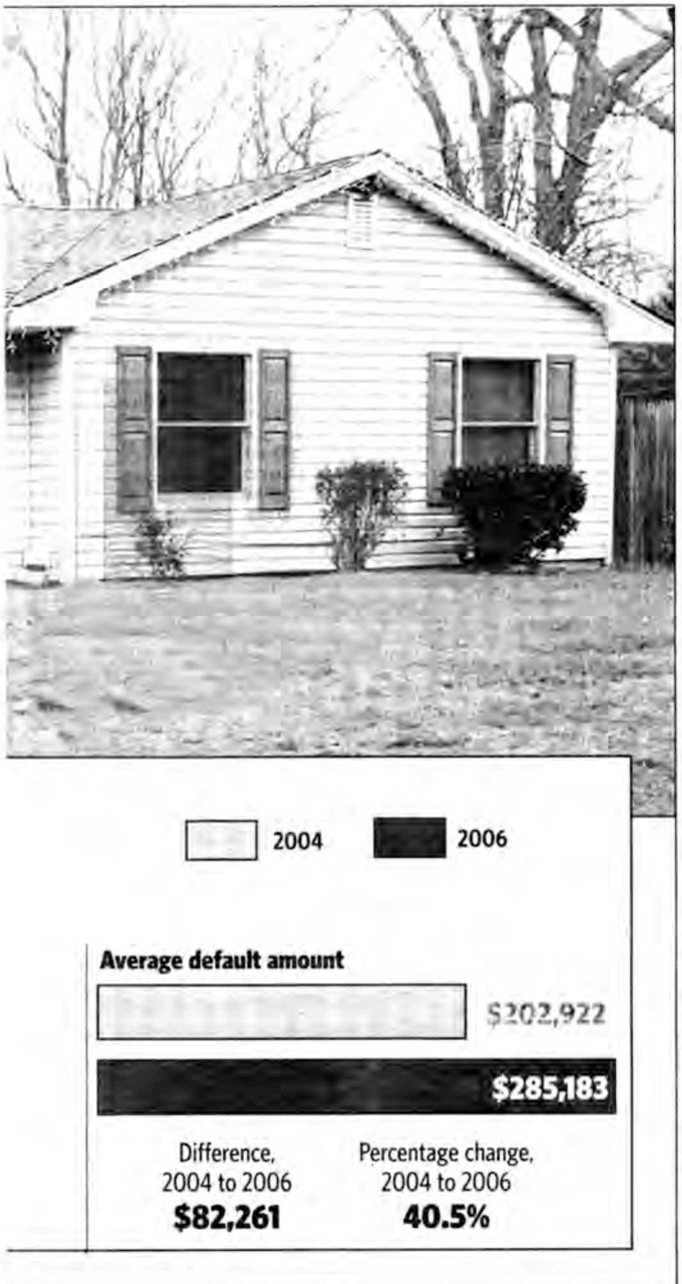


PHOTO BY PATRICK OEHLER NEWSDAY GRAPHIC / J. STEPHEN SMITH

Before falling too far behind, make a call to your lender

If you are falling behind in your mortgage payments, the first thing you should do is pick up the phone.

"A lot of times it's just a matter of telling your story to the bank," said Jonathan Pinard, president of the Empire State Mortgage Bankers Association. "But a lot of people avoid making that phone call."

Some people worry the bank will immediately foreclose, while others think their lender won't notice, experts said. Many don't want to admit to themselves — or others — they can't handle their bills.

In fact, this is the worst thing a distressed homeowner can do. Not only are you increasing the risk of foreclosure, but you could wind up owing thousands of dollars in interest, penalties and legal fees, experts said.

There are several ways lenders and counselors can help you deal with your missed payments and avoid foreclosure, if your cash flow problems are temporary and you can afford to keep carrying the mortgage. And if you can't, you should discuss your options with the bank and a lawyer.

If you've missed just a few payments, the first thing to do is call the lender that sends you your monthly statements, said Adam Brown, of Topdot Mortgage in Jericho.

Get in touch with the loss mitigation department, which may be more amenable to working out payment arrangements, rather than the collections unit, housing counselors suggest.

What arrangement the bank offers you depends on your mortgage, financial situation and lender.

"The homeowner has to show evidence they have the means to resume making mortgage payments once the bank offers them a work-out plan," said Kisha Wright, a counselor with the Long Island Housing Partnership in Hauppauge.

You may have more means than you think. Counselors can help by creating a budget for you and prioritizing your bill payments, said Howard Leonard, of GreenPath Debt Solutions in Jericho.

Find a housing counseling agency approved by the federal Department of Housing and Urban Development.

Beware of foreclosure-rescue companies. Some charge for work that counselors will do for free, while others promise ways to save your home by giving you a loan backed by your house. Meaning, if you continue to have trouble, they could get your house, counselors said.

Here are some of the options to discuss with your lender:

- Special forbearance: The lender will suspend your payments for a period of time, often three to six months, while working out a new payment plan with you.
- Repayment: You arrange to pay the back payments owed over a specified time period, often three to 12 months.
- Loan modification: Your bank can lower your monthly payments by extending the length of the mortgage or lowering the interest rate.
- Partial claim: If you have a Federal Housing Administration-insured mortgage, you may qualify for an interest-free loan. You must repay the money when you sell, refinance or pay off the mortgage.

The Housing Partnership also offers a Homeowners Emergency Mortgage Assistance Program. Borrowers who are less than 12 months in arrears and can handle full payments may qualify for a low-interest loan of up to $20,000 to cover the months they missed.

As a last resort, you could file Chapter 13 bankruptcy, which would stop the foreclosure and allow you to stretch repayment over five years.

If you cannot meet your obligations, there are ways to give up your house without a foreclosure, which can wreck your credit report and hurt your chances of owning again:

- Preforeclosure sale/Short sale: The lender may agree to accept less than the amount owed if you can sell your house in three to five months. But be careful. Sometimes, lenders can require you to make up some of the difference.
- Deed in lieu of foreclosure: You can transfer ownership to the lender if you cannot sell it. If you voluntarily hand over the deed, you will be released from the mortgage.

It's in the bank's interest to work with you since they don't want the headache of taking and reselling your home.

"The last thing the banks want to do is foreclose," Brown said. "It's very expensive."

— TAMI LUHBY

compared with other parts of the country.

Defaults, not foreclosures

The metropolitan area's foreclosure rate ranked 74th out of the nation's 100 largest regions in the third quarter of 2006, with a rate of one new foreclosure filing for every 659 households, according to RealtyTrac, which tracks real estate foreclosures.

Nationwide, the rate of new filings is one for every 363 households.

On Long Island, the number of new notices of actual foreclosure sales is only slightly higher than it was a year ago, Long Island Profiles found. In Queens, new foreclosure sales were down nearly 20 percent in the third quarter, compared with the same period of 2005, according to data compiled by PropertyShark.com, a New York City real estate information Web site.

Queens' lis pendens are up 27 percent from a year ago, however, and that could lead to an increase in actual foreclosures in the months and years to come, according to chief executive Ryan Slack, who estimated that defaults and foreclosures could rise for as long as two to five years.

New York law makes it tough to actually foreclose, Slack said. And that's good news for homeowners like Elizabeth Nielsen. The Levittown elevator mechanic, who bought her home in 2002, is now in foreclosure and trying to declare bankruptcy to find a way out. The 40-year-old single mother of two said she is constantly weighing which bills to pay and when.

"I'm still here, but I'm hanging on by a thread," Nielsen said.

Nielsen's troubles began while she was going through a divorce. They got worse when she found a mortgage broker who she said tried to scam her out of her home. The situation left her with ruined credit, thousands in unpaid mortgage debt and $2,300 monthly payments she couldn't afford.

Nielsen now thinks she

See FORECLOSURE on A36

Roof caving in on homeowners

FORECLOSURE from A4

would have been better off if she'd never purchased a home. "I came out here [from renting in Queens] and I've been struggling ever since," she said.

That's the refrain from many troubled homeowners today.

"There's the theory that everyone should have a home and everyone should have the opportunity," said Marian D. Reid, a senior fair housing investigator at Long Island Housing Services. "But not everybody is as responsible or able."

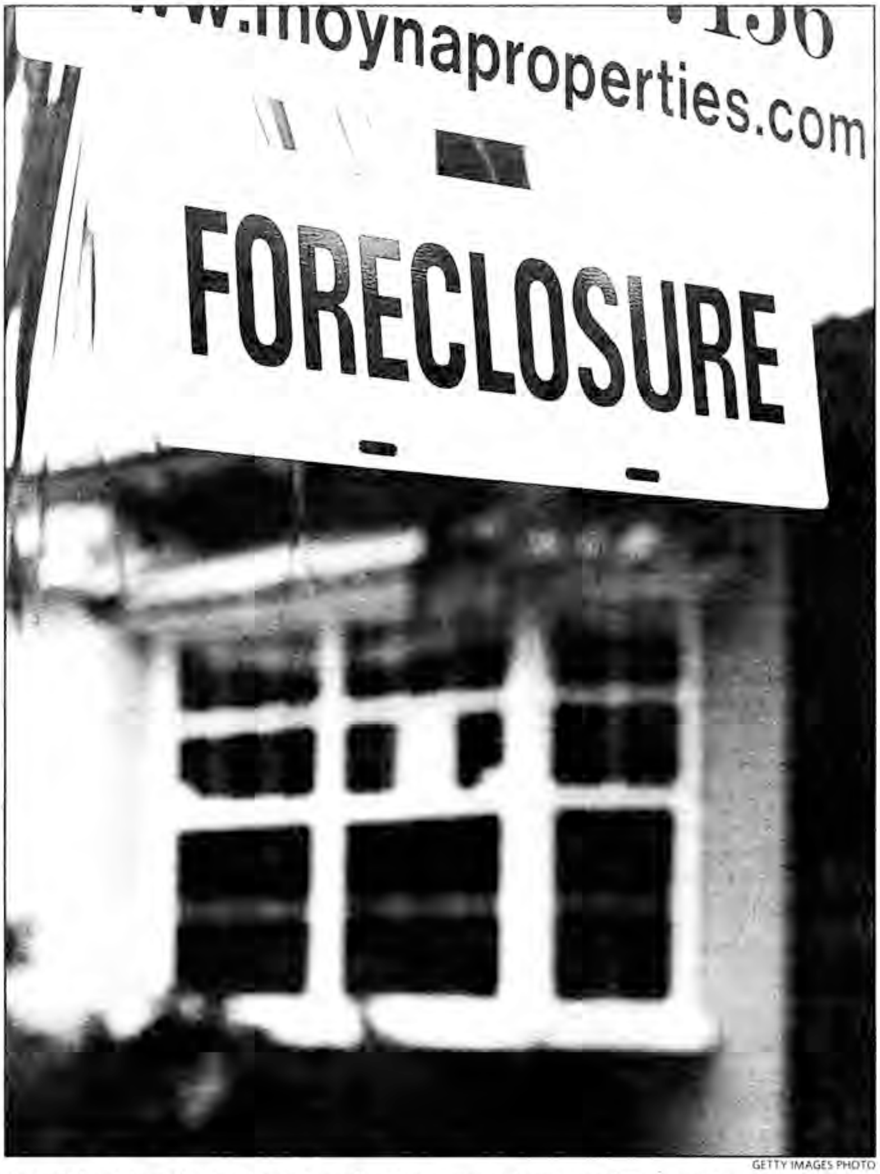
During the housing boom, many purchasers found homes beyond their means — yet bought them anyway, wanting to get in before prices went higher.

"The market just ran up beyond what people are making on Long Island," said Todd Yovino, a real estate broker with Island Advantage in Huntington, which focuses on foreclosure sales.

The boom also led to a growing availability of mortgages for anyone. Need a mortgage without a down payment or a low teaser rate? No problem. Don't have perfect credit? Take out a subprime loan that will cost you more in points and interest — but at least you'll get the house.

Said Yovino: "We got away from the basics."

Often, a homeowner can manage to make the payments on those out-of-reach loans for the first year or two, but then any savings or breathing room simply runs out. According to Newsday's analysis, the median length of time between the original mortgage date and the first notice of foreclosure was 20 months — less than two years from the time the homeowner first got the mortgage. In 2004, it was 28 months.



GETTY IMAGES PHOTO

Recent data show that notices of pending foreclosures have risen 75 percent on Long Island in the past two years, as experts say the economy's growth won't keep up with interest rates.

Subprime a big risk

Subprime loans — particularly those that are at an adjustable interest rate — are far more likely than prime loans to end up in default, according to the Mortgage Bankers Association. The group reported last week that subprime, adjustable rate mortgages posted a 13.22 percent delinquency rate in the third quarter, compared with 3.06 percent for adjustable rate prime loans.

The association's chief economist Doug Duncan noted that wherever there's a concentration of those subprime borrowers, expect higher numbers of defaults to follow. Experts said that could explain some of the more extreme pockets of defaults on Long Island.

The recently popular "exotic" mortgages — including those that don't require a down payment, allow borrowers to pay only interest, or start with an incredibly low teaser rate — have not yet seen an increase in defaults, because they are new and sometimes have stricter lending standards, according to Mark Carrington, analytical sales director for First American Loan Performance, a mortgage data provider.

But homeowners with those loans may have fewer choices if they do get into trouble, especially as interest rates reset higher in the next year or two.

"If you're leveraged either because you recently bought at the height of the market or you used a mortgage product with 100-percent financing, then your options are significantly more limited," said Marianne Garvin, who heads the Community Development Corp. of Long Island, a housing organization.

The downturn in the housing market has compounded the problem, especially for homeowners without any equity.

"If you bought the house with none of your funds and the market turns 2 percent down, you now have negative equity," said Beth Marten, who heads Home Buyer's Resource Center, a real estate agency representing home buyers. "I think a lot of people who have gotten into the market in the last three years or so are facing that."

As a result, Long Island may start to see more short sales, when the bank accepts an offer that's less than what it is owed, Marten said.

Sudden impact

But for many homeowners, that's the option of last resort. Many local residents in foreclosure have affordable mortgages and never expected to miss a payment. Then, more often than not, it's an immediate life-changing event — an illness, a divorce, a job loss or other unforeseen circumstance — that leads to the foreclosure spiral.

Carol Fitzsimmons, of Setauket, bought her home — a fixer-upper — in 1998 and poured money into renovating it, refinancing until she had a $300,000 mortgage on a home she bought for $120,000. The payments — and the rest of her bills — were manageable because Fitzsimmons was a nursing supervisor earning about $160,000 a year.

But then Fitzsimmons, 53, lost her job early last year. The widow wasn't worried about finding another one and had plenty of savings. Ten days later, a pipe burst, flooding the house and creating seemingly endless damage.

When Fitzsimmons had problems getting the money she needed from her insurance company, which, because of her mortgage, had issued the check to Fitzsimmons and her bank, she said she had to spend her own savings on the repairs — more than $25,000 just for Sheetrock and insulation. Then, when she wasn't repaid and she took a huge pay cut, Fitzsimmons saw her savings dwindle. Soon, she could no longer make her $3,000 monthly mortgage payment.

"I had plenty of money in the bank, but I eventually ran out of money," Fitzsimmons said. "I was very comfortable, I was paying my bills and I was saving a lot of money. ... Now, I just try to survive."

Now earning a third of what she was before, Fitzsimmons said she tried to work out a payment plan with her bank, but it didn't work out. She is now attempting to delay a bank sale of her home, which is still in disrepair, and searching for a way out — a refinance of her mortgage, a payment plan or even a second job. "I'm scared to death," she said.

That's a familiar feeling for Maureen Virga. Virga spent 20 years in bank management before being laid off in 2003, and then took a 75 percent cut in pay when she landed a bookkeeping job. Within two years, as her husband faced his own medical problems, Virga was diagnosed with multiple sclerosis and had to stop working.

No matter how prepared they were for a "rainy day," Virga said, they couldn't handle the number of financial crises that occurred at once.

"It's such a horror, and when you're not feeling good, it makes it 10 times worse," Virga said.

After being unable to work out a payment plan with their bank, the Virgas chose to declare bankruptcy in Vincent's name, in an effort to save their home, late last year. They made their payments — to the mortgage company, to the bankruptcy trustee, and then some. But then, in September, Vincent Virga was injured and needed a knee replacement, forcing him to retire from the Long Island Rail Road, where he was a conductor. His pension money won't kick in until February.

"How am I supposed to come up with all of this money?" Maureen Virga asked. "It's impossible."

So, the Virgas are working on a second, emergency bankruptcy, this time in Maureen's name. They've saved their home for now, and Virga said she remains optimistic.

"This is what I have left after working 26 years and if I'm going to lose it, it's going to be on my terms, not anybody else's," Virga said. "Nobody is going to throw me out of here."

Staff writer Tom McGinty contributed to this story.