Broken by the bubble

In the Fairwood subdivision, dreams of black wealth were dashed by the housing crisis

Washington Post
Story by Kimbriell Kelly, John Sullivan,Steven Rich
Photos by Michel du Cille
Published on January 25, 2015

Fairwood is a sprawling 1,800-home subdivision in Prince George's County built on a former slave plantation that was once owned by the state's 34th governor, Oden Bowie. It should have been a success story for black Americans.

The decade-old neighborhood is 73 percent black and its residents have a median household income of more than $170,000, according to the census. Some houses there once sold for more than $1 million.

ABOVE: An aerial view of the Fairwood subdivision.

But half the loans on newly constructed homes in Fairwood during the housing boom in 2006 and 2007 wound up in foreclosure — 723 of 1,441 so far, according to a Washington Post analysis of private and public mortgage data.

On some blocks in Fairwood, nearly every house went under. On Burkes Promise Drive, an arcing street of broad lawns, 20 of the 34 homes fell into foreclosure. Neighbors awoke each day to the tell-tale signs: rental trucks in driveways and piles of old furniture, strollers and garbage bags dumped on the curbs. A neighborhood security guard papered hundreds of houses with notices that homeowners were being sued for outstanding association dues and would soon be locked out of the pool.

Nationwide, the disproportionate impact of the mortgage crisis on African Americans has been well documented.

Less understood is how the crisis played out block by block and continues to reverberate in Prince George's, the wealthiest majority-black county in the United States. It was also the epicenter for mortgage failures in Maryland. Today, far fewer blacks are getting home loans in the county, foreclosures are on the rise again and the African American share of the population has started to decline there for the first time since the civil rights movement.

Fairwood, one of the nation's most aspirational black communities, is a symbol of what blacks lost in the crisis. For all its wealth, the community had the second-highest foreclosure rate in the county for a neighborhood with more than 100 loans, behind only one in Adelphi, which had a much-lower median income of $64,398.

In Fairwood, houses once valued at $700,000 are going for $350,000. Legions of homeowners who bought high have seen their equity evaporate, and still labor under hundreds of thousands of dollars in debt. And the percentage of blacks being approved to buy in the neighborhood has declined, even as deal-seekers of every demographic move in.

"Maybe for blacks, 10 years ago, this was the up-and-coming black area," said Kris Marsh, a Fairwood resident who is also a sociologist at the University of Maryland. Now, people are just looking for deals, she said. "Today, people could be thinking, 'I want the most bang for my buck.' "

A Washington Post analysis reveals what a drive through the neighborhood's stately houses might not: the effect of subprime lending on the community. Of the 1,441 loans made in Fairwood between 2006 and 2007, 416 were subprime, which are riskier loans that carry higher fees and interest rates that adjust frequently, according to federal home mortgage data.

In the lead-up to the crisis, borrowers in Prince George's earning more than $200,000 per year received subprime loans 31 percent of the time, the highest rate in the nation for a county where 750 or more subprime loans were made.

The data also reveals a crisis within the crisis: African immigrants, who make up 5 percent of the population of Prince George's, accounted for nearly one-third of the families affected by foreclosure in Fairwood, according to a Post analysis of mortgage data provided by Lender Processing Services.

Billy Okoye, a real estate agent who lives in Fairwood, said that during the boom the neighborhood was very attractive to immigrants from West Africa, who favor new construction.

"They went down and found communities like Fairwood, where builders were offering a lot of incentives," Okoye said. "They were loan products that could give you 100 percent financing, and you can actually build with zero down payment, interest only."

He said home buyers did not see what was coming.

"They had lots of programs at the time back in 2004 and 2005. And they figured, why not? If this is where we can get it, why not?" Okoye said. "When the downturn happened, reality set in. The balloon burst, and mortgages started to go up."

That reality is apparent to those who live in Fairwood now.

Solon Phillips, a 41-year-old lawyer and Fairwood resident, bought his 6,000-square-foot home in February 2009 for $460,000. The home originally sold for more than $600,000 in 2005.

“The crisis, I believe, has changed the face of Fairwood,” said Phillips, a Brooklyn-born Trinidadian. “Once the housing crisis hit, the value and prices of the homes in Fairwood dropped. This drop opened the door for less affluent homeowners to purchase and move into the community.”

Fairwood resident and real estate agent Anthony Thomas, 40, bought there with his wife, Germaine, 37, in the early days of the neighborhood, before the crisis.

“I know that a lot of families were displaced, neighborhoods shaken, and economies placed in turmoil,” he said.

But Thomas sees Fairwood’s new diversity as a virtue. “As the region continues to grow as a melting pot of ethnicities, Fairwood now serves as one of Prince George’s County’s brightest stars that exemplifies diversity in a planned community,” he said.

Marsh, uniquely trained to understand just such a neighborhood transformation, can see both sides of the equation.

“As a resident, I welcome and celebrate the socioeconomic and family type of diversity present in Fairwood,” she said in an e-mail to The Post. “As a sociologist and demographer, I am troubled that Fairwood was hit hard in the housing crisis, especially given the number of black Fairwood residents. It begs the hypothetical yet sociological question: Would the same magnitude of predatory lending have taken place in Fairwood if it were a predominantly white middle-class area?”

Subprime loans were largely prohibited until Congress in 1980 passed legislation lifting state interest rate controls on out-of-state banks.

At first, just a handful of small lenders made subprime loans. But as investors in the 1990s sought more mortgage-backed securities, which bundled subprime loans with other loans, demand grew. The high rates of return on the securities quickly made subprime loans the darlings of Wall Street.

Advocates and regulators soon began to point out that minorities were being harmed by the aggressive loan terms. In 1999, the four major federal banking regulators issued warnings that the elements were in place for predatory practices.

In 2006, Sheila Bair, who was appointed by President George W. Bush to run the Federal Deposit Insurance Corporation, had her staff look closely at subprime loans. She was distressed by what she found.

“These were absolutely predatory loans,” Bair, who now works at the Pew Charitable Trusts, said in a recent interview.

Bair’s first target was the California-based Fremont Investment and Loan, located in Brea, Calif. Fremont was Prince George’s largest subprime lender, records show. Of the 4,320 home loans in the county that the firm made in 2006 and 2007, 94 percent were subprime. Almost half failed.

Fairwood borrowers received 32 loans from Fremont, according to federal mortgage data. More than half the loans had interest rates five percentage points or higher above prime rates.

“I trust all those mortgages that they made in Prince George’s County were pretty bad,” Bair said. “It had gotten out of control.”

Bair ordered Fremont to shut down in 2007, the first such government action in the nation against a subprime lender in the years leading up to the crisis.

Although Bair managed to stop Fremont, other lenders continued to see opportunity in Prince George’s.

One of the top subprime lenders in Fairwood was National City Bank, which made 95 loans to the community between 2006 and 2007. Last year, the financial company that acquired National City in 2008 agreed to pay out $35 million to settle claims that the bank charged higher fees to black and Hispanic borrowers than similarly creditworthy white borrowers.

Using court and land records, The Post analyzed 173 home purchases in Fairwood that wound up in foreclosure between 2006 and 2008.

In 43 of those home purchases, borrowers financed 100 percent of the cost of the home with loans that had high interest rates and reset periods within three years. The loans were of the type that Angelo Mozilo, the CEO of defunct subprime lending powerhouse Countrywide Financial, had called “toxic” because they offered such onerous terms. He warned his own company in internal e-mails that the loans were “the most dangerous product in existence.”

Nearly all the remaining loans The Post examined contained features associated with high default rates, such as low or no down payments, interest-only payment periods and higher rates than prime loans.

Only seven out of the 173 defaulters received the most favorable lending terms, known as conventional 30-year fixed interest rate loans. These “prime” loans are the least likely to fail, experts agree.

The Post was unable to determine from the documents several factors that are likely to influence the types of loans borrowers are able to secure, including credit history, income and assets. The race of the borrowers also could not be determined.

Debbie Bocian, a researcher at the Center for Responsible Lending based in Durham, N.C., said the type of mortgage product had a lot to do with the failure rate in general.

“There is this pervasive narrative that the crisis is due to irresponsible borrowers, that they did something wrong,” Bocian said. “Borrowers were steered to loans that were more expensive and abusive, when they could have qualified for much better loans.”

The mortgage crisis has been blamed on everybody, including lenders, regulators, government policymakers and consumers. But there is wide agreement that subprime lending was a proximate cause.

Prosecutors and academics have shown that blacks were more likely to get subprime loans, more likely to pay higher fees and less likely to receive mortgage relief. Of blacks earning more than $200,000 nationwide, more than 1 in 3 were sold subprime loans, twice the average of the overall population, according to a Post analysis of federal mortgage data.

Fairwood sits in Bowie in the heart of Prince George's, just off Annapolis Road. Developers broke ground in the neighborhood in December 2001 and did most of their building during the housing bubble. Fairwood's spacious houses and the prospect of a new elementary school attracted upper-middle-class black families, who wanted a safe place for their children to grow up among members of their own race.

The first neighborhood was called "The Promise," and developers named the streets after prominent African Americans from the county's history. Quanders Promise Drive, for example, honors the family of two of the first slaves brought to the 13 colonies. In other neighborhoods, the streets bear the names of Bowie's family members, horses and workers.

Five-bedroom houses sit back on deep, neatly trimmed yards. Many have large windows above their front doorways, providing glimpses of sparkling chandeliers in two-story entryways.

On a hill overlooking them all is a 6,600-square-foot stucco Federal-style house out of which Oden Bowie operated a 1,000-acre plantation named Fairview. It was one of the state's largest slave holdings, with more than 100 slaves before state law freed them in 1864. Descendants of the Bowie family lived in the 225-year-old home until this fall. It is now listed for sale at $874,000. The town of Bowie is named after the patriarch and Bowie State, an historically black university, is named after the town.

In 1989, the Bowies and two prominent Maryland families who owned the surrounding land partnered with builders planning the largest mixed-use development in the state. A protracted court case over zoning and opposition from the town of Bowie delayed the project for 13 years.

In February 2003, the first residents moved into Fairwood. The development was buzzing with new buyers.

Seven builders displayed different models, which allowed buyers to shop, but also created intense competition. Buyers were frequently barraged with incentives, such as finished basements, to buy a home or to finance through a preferred lender.

In August 2006, Edith Garner, who taught special education at Benjamin Tasker Middle School in Bowie, was one of those who fell in love with Fairwood.

She bought a townhouse in an area called “The Retreat at Fairwood” for $427,213. The 2,200-square-foot home looked sturdy, with a red brick facade and blue shutters.

She signed an agreement for an adjustable-rate mortgage with an interest rate of 8.875 percent through First Guarantee Mortgage, which declined to comment for this article. She was counting on a rising house market.

“Everything was going up and up and higher,” Garner, 58, said of the housing market. “I wanted to make money, too.”

But the home purchase was 100 percent financed with a loan that carried a high interest rate.

Soon after Garner moved in, her hands began to tremble. She was diagnosed with Parkinson’s disease.

Garner was able to refinance her loan at a lower rate with SunTrust Mortgage.

Eventually, she was forced to retire. But her $2,324 monthly disability payment did not cover her $2,549 mortgage.

In February 2008, Garner stopped paying altogether. By June, SunTrust, which also declined to comment, moved to take her house. She was $15,260 behind. Garner fought to save her house, and in 2010, the bank agreed to drop the foreclosure case as she worked out a repayment plan.

But she fell further behind, owing $176,596 by 2012, and she had to file for bankruptcy to stave off foreclosure. The bankruptcy did not erase any mortgage debt, but it allowed her to reduce her monthly payments.

Garner lives alone. She's unable to afford a home-health aide and earns too much in disability to receive one under Medicare.

"Who is going to call 911 if something happens to me?" she asked.

She hired an attorney to help her get a further mortgage modification. In October, her modification came through: Her mortgage is now $1,465, which she fears is more than she can afford.

"I don't want to lose my home," she said.

Alonzo M. Walker Sr., a 56-year-old pastor, bought a $1.1 million home on land where the plantation's tobacco barn once stood.

He had worked for years as a supply manager at the federal government's Bureau of Engraving and Printing before founding Bethel Deliverance Outreach Ministries in 2001 in Upper Marlboro. It has 300 members.

Walker bought the courtly brick 6,000-square-foot house in 2006, putting down about 10 percent. He obtained two loans. One was an adjustable-rate interest-only loan for $917,928 at 6.375 percent interest from Wells Fargo. He also got a second mortgage for $114,741.

His total monthly payment came to $5,000 per month.

As a pastor, he often comforted parishioners who had fallen on hard times during the crisis. Many lost their jobs and homes.

In 2011, Walker's wife, Wanda, suffered a stroke and could not work. He defaulted on his loan less than a year later.

In September, Wells Fargo moved to foreclose on the home. Walker was 132 days behind and owed $31,016.

Walker filed paperwork to forestall foreclosure and to renegotiate the terms of his loan.

"I got the right person on the phone who could help me, and that was the difference," he said.

But the loan modification was not cheap. Wells Fargo, which declined to comment for this article, refused to eliminate his debt or reduce his principal. Instead, the bank gave him a third mortgage, which is still an adjustable rate loan but is capped at 5.5 percent. The loan term is 40 years.

Meanwhile, the house has lost a lot of value — Walker says it is worth about $650,000.

“I know my money is just disappearing into this house,” Walker said.

Despite the cost, Walker wants to stay.

“I never thought a kid from LeDroit Park could have a place like this,” Walker said. “I just can’t walk away.”

Many borrowers in Fairwood did not qualify for the main government programs that helped homeowners with mortgages.

When the Home Affordable Modification Program (HAMP) and the Home Affordable Refinance Program (HARP) were started in 2009, the only people who qualified were those with loans backed by Fannie Mae and Freddie Mac. Most of the troubled loans in Fairwood were not backed by Fannie or Freddie.

Bair said banks should have shouldered more of the burden brought on by the spate of subprime lending.

“The bank should have taken the loss, not the homeowners,” Bair said. “That people are still paying on these types of mortgages makes me sad.”

She said regulators disagreed over what was best for the teetering economy — saving banks or saving borrowers. In the end, regulators decided to emphasize keeping banks solvent.

Former U.S. Treasury Secretary Timothy Geithner, while promoting in his new book “Stress Test” during the past year, said he remained frustrated at how little the administration was able to do to offer relief to homeowners. Geithner said in his book there were many logistical hurdles as well as an issue of fairness, when 9 of 10 families were paying their mortgages on time.

The homes in Fairwood sell for a fraction of what they used to, and new buyers face tougher restrictions in qualifying for loans. Subprime loans are rare now, so those who can qualify are getting traditional loans at good rates, loan data shows.

One of those benefiting from the collapse in housing prices was Kris Marsh, the associate professor of sociology at University of Maryland who moved into Fairwood in 2009.

“I would not be able to live here if the bubble had not burst,” she said. “I did not make enough money.”

She paid $365,000 for a house that originally sold for $656,000 in 2006 when it was built. She put down $100,000, which came from her parents.

Marsh, who is African American and an expert on segregation and the black middle class, liked that Fairwood was a planned community with million-dollar houses within walking distance of a grocery store. She also liked that it was still largely black.

But she said the crisis has made Fairwood less affluent and slightly less black than it once was.

Today, fewer blacks are getting approved for homes within the county, according to federal home mortgage data. Home loans to blacks in Prince George’s have decreased from 14,679 in 2004 to 3,766 in 2013. The share of home loans in the county going to blacks is also dropping, from 61 percent in 2008 to 51 percent in 2013.

Census data show that the percentage of black people in the county in recent years has stopped growing for the first time since the civil rights movement. Bart Landry, emeritus professor of sociology at the University of Maryland at College Park, said the county will probably become increasingly diverse as Asians and Latinos move in.

One of the new residents is Reiner Castillo, a 39-year-old from the Philippines who works in information technology at Fort Meade. His wife works at Anne Arundel Medical Center in Annapolis.

The couple had lived in a townhouse in Bowie, but with two young children, they needed a larger home. Fairwood seemed ideal.

"When we passed through here and all these big houses, we said it's a beautiful neighborhood," he said.

They bought a house on Nichols Promise Drive on June 25 in a short sale for $360,000. It had originally sold for $645,000.

After closing on the house, they met the former homeowner as he stopped by to throw away the last of his belongings.

"We were just talking about our lives and how beautiful this house is," Castillo said. "That's when he started opening up."

The man told the Castillos how embarrassing it had been to put his belongings on the curb.

The Castillos were moved by his plight.

“We hired someone to help move his stuff,” Castillo said.

Danielle DeCourcey, Justin Warren, Cathaleen Chen, Pietro Lombardi, Mariam Baksh, Mel Jones, Miranda Strong and Moriah Balingit contributed to this article through a partnership between The Post’s Investigative Unit and the Investigative Reporting Workshop at American University.