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N.J. lender stumbles in providing Queens mortgages

Nearly 10 percent of company's recent loans for borough homes are delinquent

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By Adam Pincus

From left: First Residential Vice President Guillermina Chaux and a block in Jamaica (credit: Google)

Queens led the city in residential foreclosures during the economic downturn, and once again lenders are having trouble in the borough that saw an uptick in foreclosure filings in the first quarter of the year.

A survey by *The Real Deal* of Queens' most active lenders of loans insured by the U.S. Federal Housing Administration, a division of the Department of Housing and Urban Development, found several with delinquency rates above the norm; but one lender stood out for having far more defaults than the others.

Englewood Cliffs, N.J.-based First Residential Mortgage Services led the list, with 26 troubled loans. Nearly 10 percent of the 263 loans originated in Queens over the past two years were listed as seriously delinquent —or more than 90 days past due, according to HUD's Neighborhood Watch website.

That rate was nearly twice that of any other company that originated more than 75 loans during a two-year period, ending July 31, 2012. The overall average FHA delinquency rate during that period in Queens was 2.7 percent.

The federal agency reported that there were 158 delinquent loans among 5,787 total FHA-backed, single-family loans in Queens during that two-year time period.

New York University Law School's Furman Center for Real Estate and Urban Policy reported in July that the number of notices of foreclosures in Queens rose by 20 percent in the first quarter of 2012 in Queens over the prior quarter, although it remains far below the peak levels in 2008 through 2010.

Contour Mortgage, based in East Meadow, L.I., was second with a delinquency rate of 5.2 percent and six defaulted loans, followed by Patriot One Mortgage Bankers, based in Mineola, L.I., with a rate of 5.1 percent and five loans in default. Those were followed by United Northern Mortgage, based in Levittown, L.I., at 4.6 percent with nine delinquent loans and Blair Services of America, doing business as Whitman Mortgage, of Melville, L.I. with a rate of 4 percent with five delinquent loans.

In January 2010, HUD said in a letter to lenders that it could terminate a lender's authority to underwrite single-family homes if the default rate is more than 200 percent of the default rate in a geographic area. However, the agency said it would take into consideration the economic and minority makeup of underserved lending areas.

First Residential, founded in 1990, has been providing FHA-backed loans since 1994. Today, almost all of the loans it issues in Queens are FHA-backed, company vice president Guillermina Chaux said. Those loans are then sold into the secondary market, which is a common practice. She was not aware of HUD contacting First Residential about its relatively high default rate.

She blamed the high rate on the riskier lending pool.

"Our payment defaults are not related to underwriting," Chaux said. "We are very conservative. [However] we lend to minority groups hit hard by the economy, with job-related issues and who had income curtailment or had been laid off."

"They are riskier borrowers. You can't compare it to conventional borrowers," Chaux added.

Suresh Persaud, operations manager for Blair Services, said his firm has seen an unusually high level of delinquencies over the past two years, which he attributed to outside companies asking borrowers to stop making loan payments so they can reduce their interest rates. "Many are encouraging them to default on their loans so that they can qualify for a loan modification on their mortgage," Persaud said.

Other firms put some blame on unscrupulous firms selling services to new homeowners.

"We are undertaking a great effort to counsel borrowers," Don Giorgio, president of United Northern said. While acknowledging the lender is responsible for the defaulted loans, he said some delinquencies could be explained by outside forces.

"There are groups that are trying to prey on our borrowers," he said, at times increasing homeowners' bills by selling them services they don't need or and can't afford.

A further *TRD* analysis comparing FHA's records of First Residential s loan with public records available on real estate website PropertyShark.com shows that at least 17 of the 26 loans were lent to buyers that purchased homes from several of Queens distressed-property flippers.

As *TRD* reported in July, a handful of firms were buying REO and otherwise distressed single-family homes in the $170,000 and $250,000 range, generally selling them after four to 10 months with an average spread of about $160,000 per home.

Chaux said there was no relationship between the redevelopers and First Residential, and in fact as part of the government oversight, delinquent loans are carefully analyzed.

“There is no pattern,” she said.

FHA loans are often considered riskier than others, because lenders accept lower credit scores in exchange for a higher interest rate, and the homeowner can borrow up to 97 percent of the purchase price of the home. The defaulted loan is also a risk to the lender, which is on the hook if the borrower defaults within a year, insiders said.

“If any particular lender has a much higher ratio than the norm, then something is wrong there,” said Rolan Shnayder, director of new development lending at H.O.M.E Mortgage Bank, who said he is not familiar with the situation at First Mortgage Residential.

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