

Home Shops: 'One Stop' on the Road to Foreclosure

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April 6, 2009



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Haydee Sanchez first learned about [United Homes of New York](#) in 2001. While riding the F train on her daily commute to her job on the Upper West Side, she saw an advertisement for the company with the slogan: "United Homes -We Make Your Dreams Come True."

Pregnant with her second child, Sanchez, a Honduran immigrant who worked in a clothing store, and her husband Freddy, then a manager at Restaurant Depot, wanted to move from their cramped one-bedroom rental apartment in Jackson Heights.

A few days later, the Sanchezes were in United Homes' offices on Queens Boulevard, where, they recall, they met the company's president, Yaron Hershco, and an employee, who said they could buy a home with just 3 percent down. After making a \$7,000 payment and taking out a \$238,250 mortgage from [Cambridge Home Capital](#), where they say they were referred by a United Homes salesperson, the Sanchezes purchased a freshly renovated two-family two-story house at 462 Chestnut St. in East New York had the house.

Soon, though, their dream house became a living nightmare. About six months after moving in, the dining room ceiling collapsed, leaving termite infested piles of rotten sheetrock on the floor and table. Haydee said that after she called United Homes to complain, workers showed up to perform some perfunctory repairs. But they left behind termite-infested walls and rotted floors, which the family discovered after they looked under the carpets.

Haydee, who breaks into tears as she tells her story, said that, after repeated calls to United Homes that were not returned, she left a stern message for its owner, Yaron Hershco. "I told him that if he did not come and repair my house I would be on the news the next day," she says. "And then he called and told me, 'I have a lot of money and I can kill you and your family. If you do that tomorrow, you are not going to be alive.' "

Hershco adamantly denied the Sanchez's allegations. "I wouldn't threaten anybody," said Hershco who said during a phone interview that he has sold thousands of homes over the past 15 years. "Quite frankly I don't even remember even speaking to them -- I don't know these people."



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The High Cost of Convenience

Housing advocacy groups and legal services corporations say that United Homes operates a business commonly known as a one-stop shop. Such companies simplify the home purchase process for their customers by providing a real-estate salesperson, financing, inspection and appraisal. In New York City, many one-stop shops buy a significant portion of the homes they then sell at foreclosure auctions and distress sales. Often these houses are in poor condition. After doing rudimentary repairs, one-stop shops sell the properties months later at significant profit.

Lawsuits against New York City one-stop shops charge that they engaged in various kinds of fraud including concealing damages in houses they sold, arranging appraisals that put too high a value on the home and setting buyers up with inflated mortgages. Housing activists and others say that one-stop shops have contributed to the growing foreclosure epidemic in the city's low-income neighborhoods by inveigling people into mortgages that they could not afford and selling them homes that were in disrepair.

The lawsuits also charge that one-stop shops engaged in "property flipping," in which a home is quickly resold for considerable profit at an artificially inflated price, often aided by collusion between a lender and an appraiser."

"The first time homebuyer was often taken advantage of by 'one stop shopping enterprises,'" said a July 2008 New York State Commission of Investigation Report entitled [A Perfect Storm: Easy](#)

[Money and the Mortgage Meltdown](#). "While this appears to be a convenient arrangement for the home buyer, it not only bears a significant potential for conflict of interest, but it can serve as a breeding ground for fraud."

So far, though, the government has only started to rein in the operations. The city apparently has little jurisdiction in this area, and while the state has passed a law that could limit the types of predatory loans that these one-stop shops have relied upon to make their sales, it does little to help homebuyers, such as the Sanchezes, who have already bought homes.

Fueling Foreclosures

Hershco has achieved prominence for developing projects such as the [Oro](#), a 40-story luxury condominium in downtown Brooklyn, and he serves on the board of directors of the [Downtown Brooklyn Partnership](#), a local development organization. He also operates a web of companies, a number of which are registered to 87-20 139th St. in Briarwood, N.Y. Many of these home his companies sold have been in predominantly minority neighborhoods hard hit by the foreclosure crisis such as Bedford Stuyvesant, East New York and Jamaica.

A substantial percentage of houses sold by several New York City one-stop shops, including those operated by Hershco, ended up going back into foreclosure, according to data compiled for Gotham Gazette by the California-based real estate data company, [RealtyTrac](#). Two of the Hershco-controlled companies -- the Galit Network LLC and the United Property Group both of which are registered to the 87-20 139th Street address and are being sued -- have especially poor records. Out of 208 properties sold by the Galit Network during a four-year period between 2002 and 2006, at least 54, or approximately 26 percent ended up in foreclosure.

Customers of United Property Group had a similar foreclosure rate: Out of 64 homes that the company sold during the same four-year period, at least 18 or slightly higher than 27 percent ended up going into foreclosure.

The customers of Better Homes Depot of the Bronx and the Queens-based Better Homes Depot Inc., another one-stop shop that is the target of a lawsuit, also experienced high rates of foreclosure. Between 2002 and 2006, out of 522 houses sold by the two Better Homes Depots, 129 or approximately 25 percent, ended up going into foreclosure. Currently, Better Homes Depot is being sued in the United States Court for the Eastern District on charges of defrauding several first-time minority homebuyers. Repeated calls by the Gotham Gazette to Eric Fessler, who is listed as CEO of the Queens-based Better Homes Depot Inc., were not returned.

The rates of foreclosure on homes sold by the Better Homes Depots and Hershco controlled one-stop shops are extremely high comparison to annualized foreclosure data. The overall foreclosure rate for New York City was .71 percent for 2008, according to RealtyTrac. And in the Cape Coral-Fort Myers area of Florida, believed to be area in the country hardest hit by the foreclosure epidemic, the rate was about 12 percent in 2008. The rate for so-called sub-prime mortgages tends to be somewhat greater.

Even so, the high rate of subsequent foreclosures on properties sold by one-stop shops sold "sticks out like a sore thumb and indicates that there is something strange and out of whack going on," said Daren Blomquist, a spokesperson for RealtyTrac. "It would indicate that this is more than just a problem caused by the environment or location of the property," he said, adding that the numbers of foreclosure filings are probably even higher than the ones he cited because foreclosure databases tend to be incomplete, especially for foreclosure notices that were issued before 2005.

Hershco said that there were a number of possible explanations for his customers ending up in foreclosure. "Maybe they got divorced, maybe they lost their job, maybe they are on disability, or maybe they cannot make their payments," he said, "Can you check what the rate of divorce in those families?" he said adding that he didn't think that the RealtyTrac data was accurate.

Behind the Renovated Facade

The Sanchez's story offers a case study of how the practices of the one-stop shops fuel the foreclosure rate. For months after the ceiling collapse, their home became a dusty construction site where workers, prodded by frantic phone calls from the Sanchezes to United Homes offices, would show up, only to disappear again. At one point, the family had to live in their basement, while workers opened up walls on the first floor to replace rotten beams.

Eventually, the workers stopped showing up altogether, leaving the Sanchezes with a house that, eight years later, still has rotten walls and ceilings in several rooms. The couple set about trying to fix the house on their own, but even though Freddy now has a better-paying job, they fell into debt. To pay for past renovation expenses as well as future ones, they refinanced their first mortgage in the fall of 2007 on terms they say they were deceived about. In February 2008, after falling behind on their payments, the Sanchezes were in foreclosure. They blame the expenses they incurred fixing up the house.

Then there is the case of Sandra Barkley of Brooklyn. An acquaintance referred her to United Homes and received \$1,000 for her trouble. Barkley said that a United Homes representative told her that the company would take care of all aspects of the home buying process. According to Barkley, she and other customers were steered to the [Olympia Mortgage Corp.](#) to get financing. Two weeks later, Barkley closed on a two-story house in Bedford-Stuyvesant that was priced at \$359,000, with a \$10,000 down payment. Unbeknownst to her, United Homes had purchased the house only three months before at a foreclosure auction for \$153,000.

An appraisal allegedly commissioned by the Olympia from appraiser Thomas Messina had concluded that the house was worth \$359,000. However several months after she purchased the house, Barkley hired her own appraiser who put the house's value at \$260,000. A subsequent appraisal commissioned by Barkley's attorneys found that the house was worth only \$235,000.

According to court papers, at the time Messina conducted Barkley's appraisal, the federal Department of Housing and Urban Development had suspended him from doing appraisals on

federally insured mortgages because he had overvalued at least one property. HUD officials confirmed the suspension. Messina did not return messages left at his Massapequa office.

The Legal System

There have been successful lawsuits against one-stop shops. In 2003, Better Homes Depot settled a lawsuit by New York City's [Department of Consumer Affairs](#) for allegedly misleading many first-time homebuyers. It paid more than \$525,000 in restitution to 36 New Yorkers and a \$100,000 civil fine.

Advocacy organizations say, though, that it is difficult for victims of one-stop shops to obtain justice through the legal system. The one-stop shops can intimidate people, and many low-income homeowners cannot afford legal representation for lengthy and complex court battle. The Sanchezes, for example, said that they considered taking legal action against United Homes but were deterred by the expense.

Some cases, though, are wending their way through the legal system. Barkley is a plaintiff in a suit brought by [South Brooklyn Legal Services](#) that has been in the courts since 2005. It deals with six homeowners who purchased houses from United Homes and its affiliated companies between 2002 and 2003. The lawsuit charges United Homes with being at the center of vast and far-ranging conspiracies to defraud low-income homebuyers that included appraisers, a lender, a lawyer and even a major financial institution, [Credit Suisse First Boston](#).

Hershco dismisses the allegations. “We sold thousands of homes over the years and they came up with six lawsuits,” he said, “and some of the allegations they made on the complaint were false.”

The suit alleges that, according to forensic appraisals, United Homes and its affiliates sold houses to the Barkley and five other homeowners at prices based on over-appraisals ranging from 53 percent to 75 percent. The lawsuit also alleges that a review of 60 properties sold by United Homes and its affiliated companies in New York City between 2002 and 2003 revealed that, after purchasing and holding properties for only a few months, the company resold them for an average markup of over \$165,000.

The inflated appraisal on Barkley’s house passed muster at Olympia Mortgage Corp., where Barkley and other homeowners were steered by United Homes. From 1991 through 2004, there were 54 complaints against the Olympia. In October 2004, a month before Fannie Mae initiated a lawsuit against Olympia alleging fraud, the state-banking department suspended Olympia’s mortgage banking license. The company, one of whose principals was recently [sentenced to eight years in prison](#) for defrauding Fannie Mae of \$44 million, approved Barkley for two mortgage that required no verification of either her assets or income.

Hershco says that he is unsure as to whether or not United Homes referred Barkley or other customers to the Olympia. “I don’t know—I wasn’t involved personally in any of the sales,” he said, “I never met the buyers, never met the appraisers, I never met the banks, and this is on the record under oath. Maybe they saw me once at a Christmas party.”

According to court papers in 2005 Barkley's combined monthly mortgage payments under the two loans, with taxes and interest included, totaled \$2,565. Barkley had a monthly salary of \$2,332. But the attorney that she claims she was introduced to by United Homes, allegedly assured her that she would be able to afford the payments with a \$1,600 monthly income from a rental apartment in the house.

The 'Establishment' Lenders

Whatever concerns there may have been about the unusually high appraisal on Barkley's house or her ability to pay her mortgages, Olympia appears to have had little trouble selling the Barkley's loans and those of her co-plaintiffs. A company called [DLJ Mortgage Capital](#), a subsidiary of Credit Suisse First Boston, readily bought the mortgages.

Deals such as the one involving Barkley's home would not have been possible without the involvement of large financial institutions, according to Navid Vazire, a staff attorney, at South Brooklyn Legal Services. "It is impossible for me to believe that none of these banks knew that there was widespread fraud against borrowers," Vazire said, "and that all of these mortgages, which turned out to be unaffordable, were not being pushed onto people who were being deceived."

Josh Zinner, co-director of the [Neighborhood Economic Development Advocacy Project](#), agreed. Investment banks, he said, both lent money to shady mortgage originators to finance their operations and purchased the shaky mortgages, which were then packaged into securities and sold to investors.

“ There was no regulation of the subprime mortgage market,” said Zinner, former director of the Foreclosure Prevention Project at South Brooklyn Legal Services “Federal regulators completely abdicated responsibility to regulate these markets. Unscrupulous lenders could make unaffordable loans with impunity and sell them on the secondary market at a big profit, and it made these one-stop shops -- these property-flipping schemes -- highly profitable. Speculators always knew that they could wildly over-appraise these properties and if they could find someone to buy them, they could always get financing for the borrower.”

On Barkley's house and others, Olympia allegedly tailored its loans to conform to underwriting guidelines for a "no asset no income program" and a similar "low documentation" program for lenders seeking to sell loans on the secondary market, both of which were allegedly advertised on a Credit Suisse Website until fall 2007. According to court papers, even before closing on Barkley's mortgage, Olympia had completed the required Fannie Mae documentation to sell her loans on the secondary market.

DLJ Mortgage Capital purchased Barkley's loan from Olympia, despite the fact that an underwriter for the company had obtained an automated review of Messina's appraisal of Barkley house, which valued it at \$236,000, an amount commensurate with the appraisal commissioned by Barkley's attorneys. Barkley's loans were then sold by DLJ to another Credit Suisse subsidiary, Credit Suisse First Boston Mortgage Backed Securities Inc, which in turn sold Barkley's loan to a mortgage backed security called the Credit Suisse First Boston Home Equity

Mortgage Trust. Yet another Credit Suisse subsidiary called Credit Suisse First Boston LLC then allegedly sold shares in the trust to investors.

Allen Taffet, a lawyer representing Credit Suisse, said that the company did not know Messina's appraisal of Barkley's home was inflated. "We bought the mortgages through the originator, and there were certain representations made about the mortgages," he said. Citing the pending litigation, a spokesperson for Credit Suisse, Duncan King, declined comment.

The 'Anything Goes' Era

The one-stop shops existed against the overall backdrop of the real estate boom and lax regulations. "It was the Wild West, and nobody had the ability to closely monitor these organizations," said Michael Hickey, executive director of the [Center for New York City Neighborhoods](#), an organization founded by the New York City and non-profit partners to study the foreclosure crisis.

Here, as in so many other parts of the financial world, regulators, policymakers and advocates are considering if -- and how -- they can rein in the system and what answers they can offer the people who feel victims of the abuses of the last few decades.

The state agencies, along with local realty boards, knew what they had to do, Hickey said, but "were just outgunned by a fraudulent industry. The Banking Department has only 16 examiners of mortgage banks and brokers for all of New York State. Glorimar Perez-Gonzalez, press secretary for the banking department, said that her agency is working to add more.

The state's [Banking Department](#) and [Department of State](#) are both part of the state's Interagency Task Force to Halt Abusive Lending Transactions, or HALT. It has been examining the business practices of one-stop shops. [Jane Azia](#), director of the New York State Banking Department's Non-Depository Institutions and Consumer Protection unit, said the task force is still in the midst of its examinations. So far, its reviews of one-stop shops have led to a total of \$250,000 in customer restitution.

There are, she said, state laws that regulate one-stop shops and the department will consider whether the shops complied with these rules. "We are looking to see whether they [mortgage brokers] disclose to consumer the relationship with the realtor," Azia said, "That there might be a conflict—that you [the consumer] are giving up your right to undivided loyalty."

Fixing the System

Last summer, Gov. David Patterson signed a [sub-prime reform](#) lending bill that would prohibit state chartered institutions from issuing the kinds of mortgages that were made to Barkley and her co-plaintiffs. It requires verifiable income guidelines and establishes stricter underwriting standards to address the borrower's ability to repay the loan. However, a lot of federally chartered institutions are preempted from having to comply with the state law, according to Zinner.

The state law also provides some relief for homeowners who took out sub-prime mortgages. It requires companies that service mortgages give any homeowners who took out sub-prime or nontraditional mortgages between Jan. 1, 2003 and Sept. 1, 2008 90-days notice before initiating a foreclosure proceeding. And before launching a foreclosure, mortgage servicers must appear at a court-monitored settlement hearings with the homeowner to explore the possibility of loan modification.

That only goes so far however, said Zinner. The settlement conferences do not require companies to modify mortgages. Furthermore, in New York City, where property values haven't fallen as drastically as they have in other parts of the state, mortgage firms have been willing to reduce the interest rates but loathe to write down the mortgage principal.

The lawyers at South Brooklyn Legal Services want the mortgages of the homeowners they represent to be voided. "They [the new mortgages] should be written down to the actual value of the house at the time it was purchased," and the homeowner should get credit for they inflated payments already made, said Meagan Faux, co-director of the Foreclosure Prevention Project at South Brooklyn Legal Services, "Right now the mortgages are inflated because the purchase price of the house was artificially inflated due to fraud."

The most significant change cannot be made in City Hall or in Albany, according to Zinner, but in Washington. There, he said, federal legislation that would allow bankruptcy judges to reduce the principal on mortgages remains stalled in the Senate.

He sees this as an essential reform. "There are many people out there who cannot afford their properties because of the one-stop shops and the over-appraisals," Zinner said, "If this law goes through it will help a lot more people than just those who go into bankruptcy court -- it will be the stick to push mortgage servicers to do loan modifications by cramming down the principal balance of the property, whereas right now there is nothing to really push them to do that."

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