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Case studies in a mortgage collapse: broker and client

Portland homeowner seeks a subprime loan and finds a broker who borrows from her

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Mary E. Williams could be Exhibit A in Oregon's unfolding mortgage troubles.

The longtime city of Portland employee has filed for bankruptcy, unable to afford a mortgage payment that adjusted upward last month to more than $2,500 a month -- a $270 jump. Like thousands of other Oregonians, she is trying to sell her house in a sluggish market in hopes of avoiding foreclosure.

If Williams is Exhibit A, her mortgage broker, Amy Steigman, could be Exhibit B.

Steigman has left a trail of angry people including creditors, former customers and a business partner. They claim they were misled, ill-used or stiffed, in some cases for tens of thousands of dollars in unpaid debts.

Steigman hit up at least one customer and one former customer for loans when they were flush with cash from refinancing. One of them was Williams, who loaned Steigman $25,000 in 2005. Williams has received $8,100 but is still awaiting full repayment promised within four months.

State regulators say Steigman violated no rules, and she continues to work as a mortgage broker. Unlike lawyers, investment advisers or Realtors, mortgage brokers are not required to look out for borrowers' best interests, what the law terms a "fiduciary duty."

Still, the former local chair of the industry's ethics committee said he considers the notion of a mortgage broker asking a client for a loan and then failing to repay it to be "unconscionable."

Gov. Ted Kulongoski has convened a work group on the broader issue of troubled mortgages. His stated goal: to consider new rules or laws that will "ensure that no one loses their home due to an unfair loan product or lack of information."

Steigman acknowledges she hasn't repaid Williams but says she helped Williams stay in her home in 2005. "I've been trying to do the right thing for Mary since the first day she walked into my office," Steigman says.

Williams' loan, like billions of dollars worth of other subprime mortgages across the country, was built on the assumption that housing values would never stop escalating and that getting out of a bad loan was simply another refinance away. But the easy-credit gold rush ended abruptly earlier this year when mortgage delinquencies began to rise and investors fled the industry.

Todd Trierweiler, one of Portland's busiest bankruptcy attorneys, says his office is being besieged with calls from homeowners in the same fix as Williams. "There is this huge group that can't refinance, they can't pay the adjusted mortgage, and they can't sell their house because the market just isn't there anymore," he says.

Loan includes extra cash

Steigman and Williams are a study in contrasts: Williams is 59, a clerk at the city Water Bureau, with a history of financial trouble. Steigman, young enough to be Williams' daughter, spouts industry jargon in a rat-a-tat style that inspires confidence.

Steigman, a Portland native who worked as a paralegal, became a mortgage broker in 2004. She developed contacts in Portland's African American community, saying she could relate to those clients, some of whom struggled with bad credit and meager resources.

"I'm an underdog myself," Steigman says. "I was 21 and a divorced single mom."

Her timing was good. Thanks to a red-hot real estate market, she says, she earned $104,000 her first year.

Williams enjoyed far less financial success. She filed for bankruptcy in 2002 in large part after falling behind on her mortgage of about $1,300 a month. Her lender had notified Williams that it would raise her monthly payment to about $2,300 because of her credit history.

Williams went to Steigman, who then worked for Majestic Mortgage Services Inc., in early 2005. She hoped to refinance her house and get about $25,000 out of the deal to remodel.

Portland's wildly appreciating home values made the bailout possible. Williams paid $75,000 in the mid-1990s for the 3,100-square-foot house on Northeast Rosa Parks Boulevard. By 2005, it was worth $320,000, an appraiser hired by Steigman concluded.

Steigman got Williams a new $288,000 loan through Long Beach Mortgage Co., a subprime lender owned by Seattle-based Washington Mutual. The 40-year loan had an 8.325 percent interest rate that would adjust upward after two years.

In past years, mortgage lenders often refused to make a loan if the resulting mortgage payment exceeded 28 percent of a borrower's gross income. But most lenders dumped that standard years ago.

Williams' new monthly payment of nearly $2,300 totaled 60 percent of her gross salary. On her loan application, Williams included in her income $1,100 a month she receives from the state to house and care for her disabled sister. With that, the new mortgage amounted to 45 percent of her income.

Still, she reasoned, as Steigman told her, that if she could manage higher payments for two years, increasing housing values would allow her to refinance and avoid the interest rate increase due in 24 months.

Majestic collected more than $12,000 in fees and other closing costs, fees higher than those paid by a more secure borrower, but justified, Eagle officials said, given Williams' financial struggles.

Steigman says that without the loan, Williams probably would have lost her home in 2005, given how far behind she was in her mortgage payments.

Gary Carlson, chief executive officer of Eagle Home Mortgage, Majestic's parent, agrees. "I think Mary Williams got a very good loan, it really helped her situation," he said.

Williams feels otherwise. She'd missed some payments, she says, but was nowhere near foreclosure.

Broker asks for loan

Williams says she was stunned at the July 20, 2005, closing to learn that instead of getting the $25,000 in cash she had hoped for, she would get $78,000.

Steigman now says the added cash was to give Williams a cushion to cover about two years of loan payments. But at the time, she had a different idea.

Weeks after the loan closed, Steigman picked up Williams in her Cadillac Escalade and drove her through the neighborhood. As Williams remembers their conversation, Steigman asked for a $25,000 loan to close some real estate transactions.

So confident was Steigman in the pending property sales that she offered to repay Williams the $25,000, plus an additional $10,000, within four months.

Williams was taken aback. But she was grateful for Steigman's help on the mortgage.

"I tried to get loans elsewhere, and I couldn't," Williams says. "Amy made things happen. I was impressed."

Steigman signed a promissory note pledging to repay Williams $35,000 by Dec. 16, 2005.

The repayment never came.

Williams wasn't the only customer Steigman asked for money. In 2004, Steigman arranged a home loan for Laura Locke of Vancouver. Locke, just entering the real estate business, offered to steer homebuyer clients to Steigman.

Steigman, in turn, agreed to use Locke's ex-husband, Peter Van Nortwick, as her appraiser.

In 2005, Locke refinanced the house through another broker and took $60,000 out of the transaction. Shortly thereafter, Locke says, she got a call from Steigman, who asked for a $30,000 loan to invest in land in the Ridgefield, Wash., area.

Locke says she declined. She says she ended their relationship after Steigman failed to pay her ex-husband for property appraisals.

Van Nortwick says Steigman owes him more than $1,100.

"Amy's a great, great talker," Locke says. "But my ex-husband was the last straw."

Steigman acknowledged that she hasn't paid Van Nortwick for appraisals. But she denies ever asking Locke for a loan.

Mary Williams moved aggressively to get her money from Steigman, who repaid about $8,100 early last year.

In early 2006, Williams hired Portland attorney Michael O'Connor to press Majestic for the remaining money. "Ms. Williams trusted her mortgage broker and Majestic to get her a fair and reasonable loan," O'Connor wrote in a Feb. 22, 2006, letter to Majestic. "Instead, Majestic and Ms. Steigman took advantage of Ms. Williams."

Eagle officials said they called in Steigman when they learned of the personal loan and told her such dealings were counter to the company's internal conflict-of-interest rules. The company denied any responsibility for the transaction in a letter to state regulators.

Steigman said she recalls no such meeting. She continued to work for Majestic for the next nine months.

Williams sued Steigman in April 2006, eventually getting a judgment against Steigman for $28,896, which remains unpaid.

What Williams didn't know was that Steigman herself was in financial trouble.

Behind the glitzy Caddy and polished exterior, Steigman stiff-armed creditors clamoring to get paid, court records show.

In 2004 and 2005 alone, creditors filed four lawsuits against Steigman. The largest was from Earlene Spears, who claimed in the Multnomah County Circuit Court action that Steigman and Ric Fizer, her former boyfriend, had failed to repay a $12,800 loan due June 15, 2005.

In 2006, Portland Arena Management sued Steigman for failure to pay more than $23,000 owed for advertising in the Rose Garden arena. The debt remains unpaid.

Steigman filed for bankruptcy in August 2006. She listed liabilities of $84,925. The IRS joined the case, claiming Steigman failed to file a 2005 tax return. Creditors repossessed her Cadillac, court records show.

Steigman and Fizer repaid Spears in full in fall 2006, two days after Spears filed notice that she intended to attach Steigman's wages.

State finds no fault

Still waiting for repayment, Williams filed a detailed complaint about Steigman and Majestic with the state.

Trierweiler, Williams' bankruptcy attorney, expected quick action, particularly because of the unpaid personal loan. "If I did something like this as a lawyer, I would be disbarred in about 20 seconds," he says.

Steve Emory, president of Beaverton-based Pacific Sunset Mortgage and former chairman of the Oregon Association of Mortgage Professionals' ethics committee, says a mortgage broker seeking a loan from a client immediately after a refinance is highly questionable. Then failing to repay the loan is "unconscionable," he says.

Emory said the loan appeared to him to be a case of "the broker using her inside knowledge of her customer's personal finances and then taking $25,000 from her. If there's not a law to prevent that, there should be."

But the state took no action.

Berri Leslie, manager of the mortgage lending section of the Oregon Division of Finance and Corporate Securities, says Steigman violated no state law. Leslie called the unpaid personal loan "a private contractual matter" outside the state's purview.

The state's inaction shows the limited power of its mortgage regulators. Though Oregon does have strict disclosure requirements and regulators often ding brokers for failing to properly document transactions, it has no oversight of loan terms or fees. Regulators can't deem a loan too expensive or inappropriate.

The state's resources are as limited as its jurisdiction. In 2005, when Steigman asked Williams for the loan, the mortgage section had one field examiner for more than 14,000 mortgage originators. Today, it still has only four.

As Oregon contemplates changes to its mortgage laws, other states have already taken action. Colorado and several other states have laws stating that mortgage brokers do have strict legal obligations to protect their customers. Other states have or are considering instituting requirements that new loans provide a "net tangible benefit" to the borrower.

Angela Martin, a consumer advocate and industry critic serving on the state's work group, argues for broad new regulatory powers.

"Oregon is at the bottom of the heap in terms of consumer protection when it comes to most people's most important asset -- their home," Martin says.

Monthly payments jump

Today, the odds of Williams' keeping her house appear slim.

Nothing remains of the $78,000 in cash she took out of refinancing. Besides the $25,000 she loaned to Steigman, Williams says, she spent $25,000 on her remodeling and used $10,000 to repay a debt to a family member.

She's been unable to stay current on her mortgage. Her monthly payment adjusted up 11 percent in September, to $2,563, and it could adjust again in coming months, she says.

The odds of finding a lender willing to refinance her out of her current loan are poor, given her bad credit and the mortgage industry meltdown that has made lenders far more cautious. The long run-up in home prices could bail her out, but only if she sells her house. She has put it up for sale --asking price $479,900 --in a last-ditch bid to salvage her equity.

If she gets that price, Williams would be able to pay off the $310,000 mortgage debt and take home a considerable sum of money. But Williams fears she could lose the tens of thousands of dollars in home equity she was counting on to see her through her post-work years.

"I want to share this lesson," she says. "My house is my retirement bank. And now I may lose it. There are other Mary Williamses out there."

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