

THE MORTGAGE SPECIALIST

Should You Re-Fi, De-Fi or Modify?

The country is going through a massive de-leveraging process. With the uncertainty of the job market and the direction of the economy, people in mass are looking for ways to cut monthly expenses and reduce liabilities. If you're a homeowner, then most likely the biggest liability you have is your mortgage.



Anton Chau
Contributing Writer

So what are some of the options available to a homeowner to reduce their monthly payments? That would depend on their current financial situation. There are three primary categories that a homeowner would fall into. 1) Financially strong 2) Marginal or Hanging-On 3) Need of massive restructuring.

ified payment, it must be a long term, affordable and sustainable payment.

A key distinction here is that a lender's top priority is not to help the homeowner. Their primary objective is to do whatever is in their own best interest. When considering whether to approve a loan modification, a lender is going to compare that option against a foreclosure. If they determine that a loan modification will result in less of a loss to them than a foreclosure, then they will likely approve a loan mod. If, on the other hand, the lender has to reduce the payment by such a large amount to make it "affordable" for the homeowner, and that such reduction would result in more of a loss than a foreclosure, then the lender will probably not approve the modification.

Unfortunately, many lenders are still trying to figure out what is "affordable" and "sustainable" and that's one reason why the modification process is taking so long.

The challenge here is that your income can't be too high and it can't be too low. If you make too much money, then you don't need the help. If you make too little, then you can't afford it. The Obama administration has mandated that if the lender is going to offer a modified payment, it must be a long term, affordable and sustainable payment.

If you are still financially strong, have good credit and have not missed a mortgage payment, then even if you have negative equity, you may qualify for a new program Fannie Mae or Freddie Mac has introduced to refinance your loan.

They can now allow you to refinance up to 125% of your home value. The rate would be their best prevailing conforming rates, currently in the low 5's. And if you currently don't have mortgage insurance, your new loan will also not have PMI. You cannot get cash out and other restrictions apply, but for those looking to just lower their mortgage payments, it is certainly worth looking into.

If you don't qualify for the 125% refinance and you're struggling to make your mortgage payments, then applying for a loan modification may be the option for you. As long as you're still earning sufficient income to make the newly modified payment that the lender is willing to offer, then you're a candidate for a loan mod.

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The last group would be those that don't qualify for either of these options and can no longer make their mortgage payments. The homeowner has already missed their mortgage payment or is about to. This is what I call the definance process. It means the homeowner is in the process of eliminating the debt, regardless of consequences. This would include a short-sale, bankruptcy or just letting it foreclose.

In most cases, a short-sale will be a better option for the homeowner because it will have less negative impact on their credit. However, it's important to consider legal and tax consequences when making this decision.

Additionally, some lenders are imposing unrealistically harsh conditions on the homeowner when approving a short-sale. An example would be including language that would retain the lender's right to pursue a deficiency against the homeowner even if the loan is a non-recourse loan. Another condition is requiring the homeowner to sign a personal note for the deficiency even when the homeowner can barely afford to buy groceries for their family.

Be sure to consult with an attorney, tax professional and/or an experienced real estate broker when deciding your best course of action.

AGENT'S PERSPECTIVE

Those sensational RE

First, thanks to those of you who sent in examples of your lender frustrations. As I requested in last's weeks column. I was



Bobbi Decker
Contributing Writer

surprised at your eagerness to share. Almost all indicated that they were doing their best to meet every demand just to move their process to completion, but they could not get responses from the lenders. These experiences cover a gamut of situations, not just distressed properties. There was even an 80% down payment with just a 20% loan that was derailed by the loan processes. After 3 weeks of delays it is on track to close, but with 20% "loan to value" this never should have happened.

So we have it, another crazy week of conflicting headlines. First, we see the numbers go up in house sales "The steepest rise in sales in 10 years". That should be exciting news. But wait!! The next headline is "Housing is still off by 23.8% from last year" or "Prices are at an all time low... will they ever rebound?" Wouldn't it be nice to just go with the flow for a moment and enjoy the truth that does exist? Sales are up and consumers are feeling better about their opportunity to buy. Why play this "Ying-Yang" game of one good comment erased by a couple of negative observations. If you want something good to happen then you need to stay on that path, at least until you have completed the

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sentence.

Having been around for a very long time in Real Estate, I have seen many markets. Each one has its own personality. This one has been particularly challenging because of the deep rooted lack of trust that pervades the market right now. That lack of trust is well deserved. All the people I meet are really trying to get their affairs in order, but who do they trust. Loan modifications are barely creeping along. REOs, bank owned and short-sales require all parties involved to be highly medicated. I am still waiting 63 days later for a response from a bank on a short sale and have been told to expect it to drag out even more. We sit and wait while I am sure the package sits and waits on a processor's desk. This is not customer service. In the mean time, there is a baby on the way and, at this pace, she may be born long before she gets into her new home.

So what is a person to do? First, do not give up! Be tenacious. This is the type of market where you can stay strong and

pro-active; you will be able to secure a wonderful buy. Trying to "time" the real estate market will not pay dividends. Just stay in the game and you will get through to the other side. Instead of being discouraged, focus on the great buying opportunity, super interest rates, the great inventory (although the good properties are sold quickly) and lack of competition (although that is increasing as well). Focus, energy and education will make this a very profitable buying opportunity.

Bobbi Decker is an Associate Broker, DRE # 0060799.9 with Intero Real Estate Services., GRI, Graduate Realtor Institute, CRS, Certified Real Estate Specialist, & SRES, Seniors Real Estate Specialist. She serves as a SAMCAR Director, Political Action Chair & is 2008 SAMCAR Realtor of the Year. To submit questions you would like answered in this column in the future, call 650 346-5352, email: bobbi@bobbidecker.com or visit www.bobbidecker.com.

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