

AVOIDING MORTGAGE TROUBLES CAUSED BY RISING INTEREST RATES

With mortgage interest rates rising, fuel costs riding high, and consumer debt still raging, many U.S. homeowners risk foreclosure on their homes, but they don't have to lose their slice of the American dream.



According to the Mortgage Bankers Association of America, 4.95 percent of U.S. mortgages were delinquent at the end of 2006. With \$10 trillion in outstanding U.S. mortgage debt, that translates into \$495 billion at risk of foreclosure.

At risk homeowners can use the following tips to avoid mortgage trouble:

Create a budget before and never extend yourself too far. The unexpected can strike at anytime. For people who live above their means, one life disruption can lead to a financial disaster. The key is to build a detailed budget, and allow sufficient breathing room to weather an unexpected downturn.

Be wary of ARMs and interest-only loans. These loans let borrowers qualify for more expensive homes because of their lower initial payments. If you can barely afford the initial payment on your ARM or interest-only mortgage, you are asking for trouble when the initial rate term expires and your loan interest rate resets. Be sure you have extra room in your budget to afford a higher monthly payment with these loans.

Don't rush to refinance your home to pay off consumer debt. Many people faced with significant credit card or other unsecured debts refinance their homes. But this strategy only secures the debt with your home, which puts your home at risk of foreclosure if you are unable to pay. If you are not confident that you can afford your new mortgage payments, consider another debt relief option.

How to avoid a coming foreclosure:

- Enter into a forbearance agreement. Because of a temporary hardship, lenders might grant a forbearance agreement to lower - or eliminate - payments for a short period of time.
- Consider loan modification. A loan modification seeks a permanent change to the loan, such as lowering the payment, extending the loan's term, or adding past delinquencies into future

PROS AND CONS OF PREPAYING YOUR MORTGAGE



You've got some extra cash lying around and you're struggling with how best to use it. If you are like most people, you'll probably give some thought to paying down your mortgage for added security. Before paying down the mortgage on your house, however, it is

important to weigh several factors:

- How much money could that cash earn elsewhere?
- And will your lender assess an early payment penalty if you pay in advance?

Let's run some numbers.

For borrowers with fixed rate mortgages, paying a little extra each month can reduce the amount of money owed on the principal and ultimately lower the amount of interest paid over the life of the loan. On a 30-year loan of \$150,000 at 6.5% interest, a borrower who paid an additional \$100 per month would save \$51,725.18 in interest over the life of the loan. The loan would also be paid off six years and 11 months early. If the borrower paid an additional \$200 per month, he would save \$79,917.08 in interest and pay off the loan 11 years ahead of schedule.

However, this scenario doesn't reflect the tax advantages of carrying a mortgage. While you end up paying less in interest when you prepay your mortgage, you also lose part of your mortgage interest tax break. Your true savings, then, can be expressed as the difference between your mortgage interest rate and the rate at which you take your deduction. If that net percentage figure is less than the amount you could make investing the cash, you shouldn't be making extra payments towards your loan.

For example, assume the same scenario as illustrated above where the borrower pays an extra \$100 per month towards their mortgage payment and cuts their interest by \$51,725.18. What is their rate of return? For someone in the 28% federal-tax bracket, prepaying a mortgage with a 6.5% interest rate provides a 4.68% after-tax rate of return. Now, if you could invest that same money somewhere and earn more than 4.68%, net of taxes, then you're better off with the investment.

Also, if interest rates are rising dramatically, it does not make sense to pay more on the mortgage. For

payments.

- Obtain a "deed in lieu" of foreclosure. A "deed in lieu" essentially allows the borrower to return the title or deed of the property to the mortgage holder to avoid foreclosure.
- Sell the home. Selling your home may not be ideal, but can provide funds to pay off your loan and avoid foreclosure.
- Refinance the loan. It may be possible to refinance your mortgage for a lower monthly payment. However, if you are already delinquent on your mortgage, the interest rate offered may be too high to lower your monthly payment.
- Be cautious. If your house is facing foreclosure, you will likely receive numerous solicitations from individuals or companies looking to help you prevent foreclosure by offering to sell or take ownership of your home. In most cases, these solicitations are nothing more than scams by people trying to harvest the equity you have built up in your home.

Foreclosure rates have already started to increase across the country, and especially among homeowners with adjustable-rate mortgages, whose payments climb with every rate increase.

However, homeowners can make smart choices before they purchase a home, but even after problems arise – that will help them keep their home, or at least minimize the damage a foreclosure could have on their futures.

example, if you have a fixed rate mortgage with an interest rate of 6 percent, and you can earn 8 percent in an interest-bearing account, it makes more sense to invest the cash instead paying down the mortgage.

If you decide to pay extra each month after crunching the numbers, you should stick with your existing loan and maintain flexibility rather than formally changing your contract with the lender from a monthly to a bi-weekly payment. You should contact the lender first to let them know of your plans. That way, you can guarantee that the lender understands that any additional payments are to be applied to the loan's principal balance. Otherwise, the lender might consider your extra payment as a partial prepayment for the next month.

Before adjusting your payment schedule, borrowers should carefully review their loan documents to assess whether they are subject to pre-payment penalties, which could negate the value of paying down the loan value. For example, a penalty of 3% on a \$100,000 mortgage would equal \$3,000.

In the end, the most important aspects of paying off a mortgage are likely psychological and emotional, not financial. If paying off the mortgage satisfies an emotional need, then move forward even if it doesn't make perfect financial sense. On the other hand, if it doesn't bother you to be in debt – even during retirement – let the numbers make the call.

WITH FORECLOSURES RISING STAY CLEAR OF HOMEOWNER SCAMS

The great American dream is quickly becoming the great American scam. With the number of foreclosures across the country growing, the number of people willing to swindle consumers out of their homes is also on the rise.

Let's take a look at the most common scams:

The bailout. A scammer offers to buy your home for considerably less than its market value, with the understanding that you can rent and eventually repurchase if certain terms are met.

However the sales price or monthly payments are usually inflated, making a buy back nearly impossible. Eventually, the property is forfeited and the new owner sells the home and pockets the equity.

The fake home sale. In this scheme, a scammer says he will buy your home to get control of the deed or title to the home. Homeowners are led to believe their loan has been paid off – but don't get proof before handing over deeds.

But the homeowners are still liable for the mortgage, because they have merely signed over the deed, not sold the home. The scammer rents the home to a tenant with an option to buy – pocketing any down payment and rent – but never making a mortgage payment. Eventually the lender notifies you that it is foreclosing on the property. The deed holder walks away with no liability.

Bogus help. This scheme is simple and common. The scammer promises to save your credit or find you low monthly payments. Instead, you pay thousands of dollars in fees with nothing to show for it. In the end, you still might be forced into foreclosure or bankruptcy.

Most foreclosure scammers identify their victims by watching for property that has been listed for sale in court. They approach the homeowner with offers to help. Other scammers are contacted by potential victims who have seen "foreclosure rescue" advertisements.

So if you're a homeowner in financial trouble, thoroughly check out any organization before doing business with it. Here are some other tips:



- Don't pay upfront fees to "foreclosure rescue" companies that promise to help you keep your property.
- Don't sign your deed over without consulting a lawyer you trust. Remember, simply signing your deed over doesn't formally release you from your mortgage liability.
- Don't sign any contract to sell your home until you review the document with a lawyer.
- Don't work with anyone who discourages you from contacting your mortgage company, refuses to put promises in writing, pressures you to sign paperwork you haven't had a chance to read thoroughly or fills out paperwork for you.
- Contact your lender at the first sign of financial trouble. See if the loan can be restructured or refinanced, or work out a repayment plan. Keep in mind that most lenders don't want to foreclose because it costs them money. Also, the longer you wait, the fewer options you have for help. Once a lender begins foreclosure proceedings, the process is swift. Your home could be auctioned in as few as three weeks after your court hearing.
- Consider selling your home if you have any equity. If all other options fail, you might also consider deeding your property back to your mortgage company, also known as deed-in-lieu of foreclosure. If the lender agrees to this transaction, you can be released from most or all financial obligation and the lender benefits by not incurring repossession fees and other costs associated with foreclosure.
- Contact a reputable non-profit credit and housing counselor if you are not able to work with your lender. For a list of approved housing counselors in the state, call the U.S. Department of Housing and Urban Development at (800) 569-4287 or visit www.hud.gov.
- Consult with a lawyer if you don't understand the foreclosure process.

Many people miss out on real help – financial and otherwise – because they are too embarrassed. Just remember that there is no shame in seeking help.