



## Real Estate Reality "Sub-prime" Lending Delinquencies Has the Potential to Impact Housing Markets

-Debbie Yost

In recent weeks you may have heard media reports that the "sub-prime" mortgage woes are impacting the housing market nationally. "Sub-prime" is the term for financing offered to borrowers who don't qualify for traditional mortgage loans. Many of these loans were made to homebuyers with lower credit scores and/or less cash reserves, or less stable work histories. These loans generally have less favorable terms and include those with adjustable rate loans at higher than market interest rates, 100% or even higher financing, or loans that were due and payable in just a few years. While many industry experts used the justification that without sub-prime loans many people wouldn't have been able to purchase a home, the ramifications of these aggressive lending practices are now impacting housing markets across the country.

You may wonder what impact this can have on your market value. "Why would the financing the buyers used to buy a house next door affect me?" you may ask. When a borrower who stretches financially to buy a property suffers any kind of economic set back in the form of losing a job, unexpected medical bills, or even the interest rate on their adjustable rate loan raising their monthly payment beyond their budget capacity, they can't afford to pay their obligations. When this type of budget crisis hits a family they typically stop paying for needed maintenance and repair on their home long before they stop making the monthly mortgage payments. In a market where property appreciation is gradually increasing over the years, appreciation can increase the market value so there is equity to pay off the mortgage balance as well as closing costs. In areas where appreciation increased dramatically and then corrected itself in subsequent years (such as the Arizona market in 2005 and 2006) those homebuyers who financed the full purchase price at the peak of the market find they are unable to sell it today at a price high enough to clear their loan balance. If you or someone you know is in this situation, you aren't alone. This scenario was repeated over and over in fast appreciating markets across the country in the past few years. As inventories of available properties for sale exceeds demand, prices drop. Neighborhoods with vacant, bank owned properties have a negative impact on your home's market value.

Lenders are reporting high delinquency rates on mortgages across the country. It's not surprising that sub-prime mortgages are showing the highest delinquency rates and as a result the credit guidelines for new loans were increased in the past weeks, eliminating many buyers from qualifying for new loans. Across the nation, homebuyers who were in escrow to purchase property with sub-prime loans no longer qualify and they are unable to complete their purchase. Certainly it's not time to panic, as we know every market is cyclical and this sub-prime lending correction just delays the inevitable market rebound. Buyers who have acceptable credit guidelines for financing are seeing lots of inventory and have a lot of negotiating leverage. It's certainly a lucrative buyers' market for buyers with the capacity to obtain financing.

Despite what you may have heard, as a rule, lenders do not want to foreclose on a property if a workable solution is possible. Lenders estimate that they lose 40% of the value of a loan that is in foreclosure, in addition to having to pay out additional money for property taxes and

insurance. Homeowners who have trouble meeting their mortgage payments are always urged to contact their lender as soon as possible to discuss their options. With the huge amount of sub-prime loans financing much of the last few years' real estate boom, lenders know they have a potential time bomb ticking in the number of potential foreclosures and losses and are taking aggressive action to work with borrowers in an unprecedented way. In early April, EMC Mortgage Corp., which is reported to have a \$78 billion portfolio of sub-prime loans, unveiled plans to form a 50 person team whose focus is to work with troubled borrowers by phone. Their plan is to spend an unlimited time sorting through their bills to compute a workable monthly payment. This is a huge shift from the typical call centers to a counseling approach designed to help delinquent borrowers avoid a foreclosure, and potentially devastating lender losses.

For homeowners who are facing a possible foreclosure it can be confusing as well as embarrassing and discouraging to decide on the best course of action. Unfortunately there are unscrupulous people who feed off of folks in distress, and sometimes it's hard to tell the difference. While there are honest investors in the marketplace who will approach homeowners with an offer to purchase the home prior to a foreclosure, there are also way too many thieves who offer a miracle solution. One scenario frequently offered is for the "white knight" to buy the home and prevent the foreclosure. They offer to rent the home to you for a year or two while you arrange refinancing and you will have the opportunity to buy the home back. There are many variations of this game, and some may actually work out for the delinquent homeowner. However there are far too many stories where the new purchaser collected rent and never made the mortgage payments, or the rent payments were so high there wasn't a reasonable ability for the homeowner to make the payments. In other cases the homeowner had no reasonable chance to obtain refinancing, particularly as a result of recent credit requirements tightening. In the end, the homeowner saved themselves from a foreclosure, but unwittingly sold their home to an unscrupulous person whose intention was to steal the home at a lower than market price. The old saying "It if sounds too good to be true, it probably is," probably applies to these offers.

If you are facing a financial problem that prevents you from making your mortgage payments, you need to know your options. First, call one or more reputable real estate agencies and ask for a current market evaluation to determine what the realistic market value is and typical time it will take to sell your home. If those two written market evaluations are similar you have information that you and your lender need to know. If the results vary greatly, get a third opinion. Second, call your lender and tell them the situation. For example, if you cannot make your payments and your mortgage balance exceeds the current value of the house the lender will be more interested in working out a solution rather than taking the home back in a foreclosure action. "The larger the loss of value and the greater the likely loss will be, the more flexible we are," said Larry B. Litton Jr., president and CEO of Litton Loan Servicing in Houston, which services \$60 billion in mortgages, in an Associated Press article in the April 8th Chicago Tribune. Litton said his company is modifying about 1,000 loans a month, which is an increase from 300 to 400 about six months ago. While the time and effort involved in working through the paperwork required can seem daunting, the results will far exceed the ramifications of a foreclosure carried on your credit history for years to come.

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