

Topic of the Month

October

The Foreclosure Crisis: What is Causing This Mess?

QUESTIONS? Contact ANH at 1.800.556.1548

The Foreclosure Crisis: What is Causing This Mess?



According to RealtyTrac, Inc., there were 243,947 foreclosure filings during the month of August 2007, up from 113,300 in August of 2006. That is a 115% increase in one year and 36% increase from July's 179,599 filings. Just about everyone has heard of this crisis, but what is causing such a dramatic increase?

For a typical mortgage, there are three main components to the monthly payment; principle, interest, and escrows (insurance and property taxes). Through the real estate boom that started in 2001 up to last year, many aspiring home buyers took on non-conventional mortgages in order to qualify for homes that were in reality outside of their price range. These types of mortgages included interest-only, adjustable rate mortgages. What is happening now is that the payments on these mortgages are increasing dramatically, many of them increasing by several hundreds, or even thousands of dollars. The interest rates were fixed for two or three years, and are now changing from **6-6.5%** to **8-8.5%**. This by itself can impact a mortgage payment by about **\$350** per month on a **\$200,000** loan.



Compounding the problem, the interest only feature of the mortgage could only be for two years also meaning that for the first two years, none of your monthly payment goes to paying down the principle balance; however, starting in year three the payment goes up to include principle payments.

For illustration, if you have a **\$200,000** mortgage with the two year interest only adjustable rate feature, your monthly payment (not including escrows) would be about **\$1,042** at the beginning, but after two years, it would become **\$1,529**, a **47%** increase in your monthly payment.

The third component, the escrow, will also increase, especially if you have bought your home from someone who had owned the property for quite some time. After a property changes ownership, the property tax agency re-assesses the value which is what determines the amount of tax owed. Going back to previous example, the buyer of this **\$200,000** home may have paid around **\$300** per month for taxes and insurance. After the taxable value of the home is reassessed, the escrow payment could go up to about **\$750-800** per month. **This example is fully illustrated in the table at the bottom of this page.**

If a **70%** increase in monthly payment wasn't enough, we have seen cases where the payments have increased by as much as **100%**, especially in areas where insurance rates have increased also, such as Florida, Louisiana, and the rest of the Gulf Coast region.



What to do if you find yourself in trouble.

Now that you have seen your monthly payment increase by **80%**, you find yourself not being able to afford this new payment. There are several solutions available depending upon your circumstances, but first and foremost, communicate with your lender. Many debtors are afraid to admit to their lender that they are in trouble, but reality is that lenders do **NOT** want to go through the foreclosure process because of its cost to them, but also, they are in the business of lending money, not owning real estate. Your current lender may be able to help you. Many lenders do mortgage modifications that actually change the terms of the note. They may convert the adjustable interest rate into a fixed rate. They could also extend the number of years to repay the loan, or even put any missed payment into the balance of the loan and recast it. Also, if you have an escrow shortage due to the increased insurance or property taxes, most lenders require the shortage to be repaid over **12 months by default**. If you ask, they could stretch the shortage payments out to **60 months, or 5 years**. If you can work out a plan with your lender early, you can protect not only your credit score, but also your home.



If you find that the payment is just too much, you may need to get out from under the mortgage altogether. This may require selling the home. If you can not sell the home for the full amount of the mortgage, the lender may accept less than the full amount owed. This arrangement is called a short sale. The final option is called a deed-in-lieu of foreclosure. This involves giving the home back to the lender without going through the foreclosure process. This is an option of last resort and requires that you are already behind on your monthly payments, but this is less damaging to your credit report than an actual foreclosure and this option has certain limitations, especially if you have more than one mortgage.

Example of Mortgage Payment Increases

Time Period	Principle Payment	Interest Payment	Escrow Payment	Total Monthly Payment
Year 1 & 2	0	1,042	300	\$1,342
Year 3	153	1,376	750	\$2,279
Percentage Increase				69.79%

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Beware of Scams!



Of course, when there is a large population that find themselves in trouble, there will always be unscrupulous entrepreneurs looking to take advantage. We are seeing foreclosure prevention scams increasing as this problem grows. Be wary of these street signs that advertise that they will buy your house for cash. These companies may in fact buy your home, however if you are not careful you may wind up letting them do so for only a few hundred dollars. Other scam artists may approach you and offer to repay your mortgage or sell the property for you if you sign the deed over to them. What happens in reality is you are left with no home, but you still have a debt. Signing a deed over to someone does not relieve you of any of the mortgage responsibilities. These scammers are taking advantage of uneducated individuals. Information is your best defense, and never sign a document unless you understand every word.



GOT QUESTIONS? GET ANSWERS!

Call A New Horizon's counselors at:
1.800.556.1548

A New Horizon Can Help

A New Horizon Announces National Foreclosure Prevention Hotline



(800) 466-0848



A New Horizon has established its "National Foreclosure Prevention Hotline". The hotline is designed to assist people who believe they will be in danger of foreclosure in the coming months, while there is still time to solve the problem. By anticipating problems in advance a large number of foreclosures can be avoided.

"We have seen a rise in foreclosures nationwide. Cities that we work with have seen hundreds of foreclosures this year and counties all around us have seen their foreclosure numbers reach the thousands," says Stephen Marcus, President and CEO of A New Horizon, "We've done what's needed to be done to help solve this problem and encourage other agencies to help tackle this crisis that is plaguing Homeowners."

The hotline is of greatest value the earlier on in the process it is called. Indeed, many agencies are heeding the call. The **Boca Housing Authority, Home Solutions Network** and the **Broward County Family Success Center** as well as local banks and financial institutions have all recently referred interested callers or clients to **A New Horizon** for advice and counseling in an effort to prevent foreclosure at the very onset of a "30 day" (red flag) late and/or when they are experiencing people having difficulty deciding what to pay at the end of the month. **Certified Counselors** at **A New Horizon** analyze each individual situation and suggest a solution that's right for them. *"Timing is of the essence. The sooner we know about an upcoming problem that can lead someone toward foreclosure, the greater the number of options that are available to them,"* explains **Sandra Tobon**, A New Horizon's **Community Outreach Coordinator**. She adds that more people have called in for help about this issue over the past year than have done so at any other time in the organization's history.

A New Horizon offers credit counseling and advice on avoiding foreclosure free of charge and as a public service. Each person's situation will be analyzed individually and confidentiality is assured. Founded to address the social and economic problems caused by debt, the organization has several educational programs and its activities have received prominent endorsements of public officials and community agencies. The number to the **Foreclosure Prevention Hotline is (800) 466-0848 or (954) 545-6188 in Broward County.**

Implementing Solutions For Financial Change

A New Horizon can help in several ways. For Banks, Homeowner Associations, Employers, Churches, and other businesses that would like to enhance your existing employee benefits package, offer financial solution oriented services to your customers or receive assistance with accounts receivables, please contact A New Horizon.

Allow us to implement our Financial Wellness Programs or develop financial solutions that are best for your organization. We have dedicated a special extension at 800.556.1548 Ext.1417.

Let Us Help You!



For more information on this topic, call a Certified Credit Counselor at
1.800.556.1548 or visit our Learning Center at www.anewhorizon.org

