The CS Advisory Group

the plan: action alert

Navigating the Turbulent Mortgage Marketplace

Exclusive Report: What are the options if I owe more on my mortgage than the value of my home?

There are a few options when it comes to owing more on your mortgage than the value of your home. They are:

Option 1
Continue making your payments on time and ride out the storm

Option 2
Stop making your payments and go into foreclosure

Option 3
Try to modify the terms of your mortgage

Option 4
Try to sell the home on the open market as part of a "Short Sale"

Option 5
Consider a sale-leaseback or rent-to-own strategy

Please see the downloadable .pdf article for a detailed exclusive on this topic at the link on the right.

If you would like to know more about other articles in this series pertaining to the financial markets and the options you may have with your current mortgage, please call Marti Sheredy VP of Client Services on my team at 818-762-0844 or email her directly at MartiSheredy@TracyCavanaugh.com.

Warm Regards,
Tracy Cavanaugh **CMP, CMPS**
The CS Advisory Group

About Tracy Cavanaugh

Tracy has over a decade of experience in the mortgage banking industry. She established the Advisory division of AFFG with offices in both east and west coasts.

Tracy has earned the designations of both Certified Mortgage Planning Specialist (CMPS) and Certified Mortgage Planner (CMP) and holds a New Jersey Mortgage Banking License for both first and second mortgages and is a licensed California lender. She is a member in good standing with the Financial Planning Association and Certified Mortgage Planning Specialist Institute.

Navigating the Turbulent Mortgage Marketplace

The CS Advisory Group

CMPS INSTITUTE

Tracy Cavanaugh,CMPS CMP
President
Tracy Cavanaugh

What are the options if I owe more on my mortgage than the value of my home?

Option 1

Continue making your payments on time and ride out the storm

- Your lender cannot take your home away as long as you make your payments on time. Therefore, if you want to keep your home and you can afford your payments, you should do whatever it takes to continue making your payments on time. Although it is a hard pill to swallow, this is likely to be your best option because it is the most responsible thing to do and it protects your credit rating.
- Even if you are experiencing other financial difficulties and you are faced with declaring bankruptcy, you are not required to include your home in the bankruptcy. For more information, check with an attorney who is familiar with the laws of your state.

Option 2

Stop making your payments and go into foreclosure

- This is probably the worst decision you could make, but depending on your circumstances, you may have no other choice. Foreclosure laws vary from state to state, but here are a few things to keep in mind:
    - Foreclosures reflect very negatively on your credit rating and could preclude you from borrowing money through credit cards and car loans. In fact, if you become delinquent on your mortgage, this will likely have an immediate negative impact on the interest rates and terms of all your credit cards. Credit card companies typically have the right to increase your interest rates, close your accounts and/or reduce your credit limit as soon as you default on any other debt (including your mortgage).
    - Fannie Mae, which is very influential in setting the mortgage guidelines, has recently updated their lending rules to state that individuals who have gone through foreclosure need to wait anywhere from 3-5 years before qualifying for a new mortgage. This means that it will be very difficult, if not impossible, for you to buy a home and qualify for a new mortgage for at least 3-5 years.

Option 3

Try to modify the terms of your mortgage

- Nearly everything in life is negotiable — this includes the current status of your mortgage. You could either hire an attorney or try to call your lender yourself and renegotiate the terms of your loan. Keep in mind that your chances of success are always better if you get an attorney involved. In that case, make sure to get references from the law firm of clients they worked with resulting in successful modifications. Remember, lenders would rather not have you go all the way through foreclosure if it can be avoided. In fact, after regulators took over the failed IndyMac Bank, Sheila Bair who is the Chairman of the Federal Deposit Insurance Corporation (FDIC) said, "We will very aggressively pursue loan-modification strategies for unaffordable loans to make them affordable on a long-term, sustainable basis."

Please ask me about other articles in this series:

- **What exactly is the problem today with banks, financial institutions and the financial markets?**
- **What exactly is going on with Fannie Mae and Freddie Mac?**
- **How long will the turmoil last, and is this still a good time to buy a home?**

Option 4

Try to sell the home on the open market as part of a "Short Sale"

- A short sale is where a property owner sells property for less than what is owed on the mortgage. The mortgage lender is asked to approve the sale and forgive the difference between the sales price of the property and the remaining balance of the mortgage. Consider this example:
  - $200,000 sales price
  - $250,000 mortgage balance
  - $50,000 difference that is forgiven by the mortgage lender
- Understand the impact on your credit rating — a short sale has virtually the same negative impact on your credit rating as a foreclosure. Both short sales and foreclosures are treated as "settled accounts." In other words, the lender is settling with you and agreeing to be paid less than what they are legally entitled to receive. Therefore, you are developing a reputation for paying back to your lenders less than what you originally agreed to pay them, and this reflects negatively on your credit rating.
- Understand the new Fannie Mae rules — beginning August 1, 2008, an individual who has sold a home as part of a short sale will not be able to qualify for a new mortgage for another 2 years!
- Understand the tax impact — depending on the type of mortgage and property you have, you may be subject to income taxes on the portion of the mortgage that is being forgiven by the mortgage lender! There is only one case where income taxes do not apply: if the forgiven debt is attached to your primary home and the mortgage balance itself was originally used to buy, build or improve your home. In other words, forgiven mortgage debt on second homes and investment property is taxed, as well as all forgiven debt where cash-out loan proceeds were not used for home improvement.

Option 5

Consider a sale-leaseback or rent-to-own strategy

- A sale-leaseback is where you sell your property to an investor (as part of either a short sale or traditional sale), and then you lease it back from the investor. This allows you to remain in your home without the trauma of having to move away and find new housing. The thing to be cautious of is that some variations of the sale-leaseback strategy are centerpieces in some of the so-called "foreclosure rescue" scams that prey on unsuspecting home owners. Before engaging in sale-leasebacks, consider the laws of your state, and make sure the transaction is properly and ethically structured to protect the interests of all the parties involved.
- A rent-to-own strategy allows you to find a new home now and rent it from an investor with the option of buying the home at a pre-determined price at some point over the next two to three years. You would do the house shopping and find a home where you would like to live. The investor then buys the home, preferably getting a good deal by buying a home that is being sold short or through a foreclosure. You then sign two agreements with the investor:
  - Lease agreement that spells out the terms of the rent payments
  - Option agreement that spells out the predetermined price and terms under which you can buy the home from the investor at some point within two to three years

Conclusion:

It is always advisable to consult with a Certified Mortgage Planning Specialist ™ (CMPS®) when navigating today's turbulent mortgage and real estate marketplace. As a CMPS® professional, I am committed, qualified and equipped to help you evaluate your options!

Tracy Cavanaugh
President

Tracy Cavanaugh, CMPS®
The CS Advisory Group of AFFG
3301 Hwy 66
Neptune, NJ 07753

732-774-8978 direct
732-876-0440 fax
TCav@AFFG.org
http://www.TracyCavanaugh.com

The CS Advisory Group

www.TheCSAdvisoryGroup.com
3301 B Rt. 66 Neptune NJ 07753 (732)774-8978*
433 N. Camden Drive 6th Floor Beverly Hills CA 90210 (310) 887-1342 or (818)762-0844*